

# **BUSINESS LICENSES, FEES, AND TAXES IN FLORIDA**

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**PREPARED BY THE RESEARCH STAFF OF THE FLORIDA  
CITIZENS TAX COUNCIL FOR CONSIDERATION BY  
THE COUNCIL AND THE PUBLIC**

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This interim study was prepared by the research staff of the Florida Citizens Tax Council to acquaint the Tax Council, the members of the Legislature and other officials, and the public with the factual findings and suggested possible improvements regarding business licenses, fees, and taxes in Florida.

The Florida Citizens Tax Council has not changed this report on the basis of its own analysis and evaluation of the factual findings as presented to the Tax Council members in preliminary form prior to the preparation of the Tax Council's own report. This report, rather, is in the form decided upon by the Tax Council's research staff. This publication, therefore, is not to be taken as the report or recommendations of the Tax Council which have been published separately.

A series of research studies is being made available to obtain the views and suggestions of informed citizens and officials in considering state and local tax problems. Dissemination of the factual findings covering business licenses, fees, and taxes is accomplished through this publication, which is a part of the 1956-57 studies by the research staff of the Florida Citizens Tax Council.

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## EDITORIAL INTRODUCTION

Dr. LeRoy Qualls of the faculty of the Economics Department, University of Florida, wrote the section of this study on "Agricultural Inspection Fees"; and other staff members aided in the preparation of this report.

The research staff of the Florida Citizens Tax Council is making available to the Council and the public a series of studies analyzing individual Florida taxes or examining the tax system as a whole. Pursuant to the direction of the 1955 Legislature establishing the Tax Council, both the state and local aspects of Florida taxation are subject to investigation. So wide a scope for study makes the issuance of a series of reports preferable to a single voluminous compendium.

Although many of the reports are being issued directly under the auspices of the Florida Citizens Tax Council, several important studies of the series have been published by the Bureau of Government Research and Service, School of Public Administration, Florida State University. The Tax Council has contracted with that institution to undertake the research and accompanying publication for studies of property assessed valuation and related subjects that are part of the Tax Council's research program.

Following the issuance of the research reports, or the presentation of some of the later reports in preliminary form, the Florida Citizens Tax Council held hearings and submitted a report of findings and recommendations to the Governor and the 1957 Legislature.

Wylie Kilpatrick, Executive Secretary  
Florida Citizens Tax Council



## BUSINESS LICENSES, FEES, AND TAXES IN FLORIDA

Licenses and fees have been used by various levels of American Government for many years. In Florida their use goes back well over a hundred years. Counties and municipalities in Florida have been collecting licenses and fees as part of their finance systems for approximately 50 years.

A license has been characterized as the evidence of permission to engage in an occupation or exercise a privilege in consequence of the performance of some duty, or the payment of a tax by the person thus engaged. The payment of a fee is almost universally associated with the issuance of a license. When the fee charged for the license is insufficient or is no more than sufficient to cover the cost of issuing and policing the licenses, public regulation or control is the essential element of the system. When the fee charged for the license, however, is obviously and intentionally greater than any possible cost for issuing and policing the license, the device is used primarily for revenue and only secondarily, if at all, for regulation. In Florida, licenses and fees have been widely used for both purposes, control and revenue.

### Business and Occupational Licenses and Fees

**Conflict between practice and principle.**—Florida is not alone in the use of business licenses and fees since all states levy special license taxes on one or more particular businesses and occupations. In common with the other southern states, however, Florida has made wide use of this device until the number of business license taxes is legion. Business licenses constitute a conglomeration of special business taxation with differentiated bases and rates.

Fiscal authorities condemn the entire system of business taxation in the United States as it is now practiced. Studenski, an outstanding authority, has expressed the idea in this way:

. . . . This structure (of business taxes), as it is now constituted, is generally recognized to be singularly devoid of any plan and to be inconsistent in its underlying principles. At best it is the disordered product of fiscal expediency and piecemeal legislation—a more or less accidental conglomeration of tax laws, enacted at different times and applied to different types of businesses or different attributes of the same businesses, according to the exigencies of the moment.<sup>1</sup>

Studenski declares that the time has arrived, (and is now past due) for the introduction of some order into the medly of unrelated, overlapping, and conflicting taxes on business. The same

<sup>1</sup>Paul Studenski, "Toward a Theory of Business Taxation," *The Journal of Political Economy*, Vol. XLVIII, October, 1940, p. 621.

condemnation has been extended to the use of business and professional licenses as a revenue-raising device. Shultz and Harriss take their stand against this type of business tax, as follows:<sup>2</sup>

Special business license taxes have little justification. Lightning-rod agents, dealers in musical instruments, cotton processors, or theaters are granted no special privileges by the state to justify special taxes according to any benefit theory . . . . No legislative adjustment of fixed taxes, or taxes per county, or taxes per population of the city in which the business is operated, or taxes per machine employed can make a series of license taxes conform as closely with the principles of taxpaying ability as does a general income tax or some other general business tax. As regulatory devices they are generally crude, ineffective, and inequitable.

Historical accident gave rise to the license tax systems found in many of the southern states. As investigating bodies have pointed out many times, historical accident is no justification for the continuation of these taxes.

One of the difficulties with the license tax system is that of finding an acceptable base for the tax. As shown by the list below, many bases have been found and used. Most of those listed have been used in Florida at one time or another. Some of these bases are:<sup>3</sup>

1. Type of occupation
2. Number of population in city or county
3. Kind or size of product
4. Number of units of some essential equipment
5. Room or space of the business
6. Productive capacity of the business
7. Number of employees
8. Kind or size of equipment
9. Length of time under local jurisdiction
10. Volume of actual production
11. Amount of fee or price charged
12. Amount of invested capital
13. Inventory
14. Gross receipts
15. Rental value of the property
16. Street frontage
17. Number of vehicles used
18. Number of salesmen
19. Number of customers
20. Combination of two or more of these bases.

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<sup>2</sup>William J. Shultz and C. Lowell Harriss, *American Public Finance*, 6th Edition, 1954, p. 339.

<sup>3</sup>Roland B. Eutsler, *The Occupational or Business License Tax as a Municipal Revenue Source*, a study prepared for the Citizens Tax Committee, November, 1946, p. 10.



None of these bases is free from weaknesses in measuring the taxpayer's ability to pay. The use of flat rates on some of these bases adds to the inequalities under which specific businesses must labor. Moreover, the occupational tax structure imposes the additional burden of finding a base which provides equity between various taxing units.

**State and county business and occupational licenses.**—Chapter 205 of the Florida Statutes, 1955, contains the general provisions under which the state and counties in Florida levy most business and occupational licenses. In general, section 205.02 provides for a county business license tax of half the state rate in every case not otherwise provided by law. Chapter 205 covers an impressive range of businesses and professions. Those who practice the various professions requiring certificates of proficiency or evidence that they have completed certain professional training and have achieved certain standards, such as lawyers, physicians, accountants, and many others, must have such a certificate from their state licensing board before a state and a county license to practice the profession can be issued. In addition to business and professional licenses, many other types of licenses are issued for regulatory or control purposes as well.

Unless otherwise specifically provided by law, business and occupational licenses are assessed and collected by the county tax collectors. The sums collected are sent to the State Comptroller who has supervision over this activity. The county judge receives a fee of 25 cents for each license issued. In many counties, however, the county judge has little to do with the licenses. His only function is to make the report required of him by law. The individual buys his license from the tax collector, pays the fee to the tax collector, and is not even aware in many instances that the judge is involved. One aspect of simplification in the license fee administration would be to eliminate the function of the county judge, leaving the entire matter of administering the licenses and reporting to the Comptroller in the hands of the tax collector.

**Public utility licenses.**—Public utilities in Florida are encumbered with several types of occupational licenses and fees. Railroads are charged a license tax of \$10.00 per mile of track which is apportioned half to the state and half to the counties in which the track is located. This fee is in lieu of all other state and county licenses on railroads (F.S. 195.10). Cities and towns are authorized to impose a license tax on railroads graduated from \$10 in cities of 500 or less to \$250 in cities of 20,000 or more (F.S. 195.11). In addition, some cities may levy railroad license charges under special legislation. The City of Tallahassee, for example, levies a \$300 license on railroads.

Sleeping car companies pay a license to the state of \$5,500 which is in lieu of all other county and municipal licenses (F.S. 195.15). Private car companies, that is, the Fruit Growers Express, that furnish refrigerator cars must pay a license of \$500

to the state. No further license tax can be imposed upon private car companies by counties or municipalities (F.S. 205.54). Municipalities are authorized to impose licenses on express companies having offices therein ranging from \$6 in cities of 250 population to \$200 in cities of more than 20,000 population (F.S. 195.14).

Electric companies, water companies, and gas companies pay state licenses based upon the population of the municipality in which they operate. Electric and water company licenses vary from \$10 to \$300, while gas company licenses vary from \$25 to \$300. For example, state licenses in communities of 15,000 population for electric and gas companies are \$50, and for water companies \$75. In a community of 1,000 population, an electric company pays a license of \$10, a gas company of \$25, and a water company of \$15. Other inconsistencies in the graduation of these licenses on the basis of population can be seen in Table 1, which shows the graduation of the three types of license. All three types of companies pay a license of \$300 in communities having populations over 50,000.

TABLE 1.—GRADUATION OF STATE LICENSE FEES ON ELECTRIC, GAS, AND WATER COMPANIES ACCORDING TO SIZE OF COMMUNITY: 1957

| Electric Companies |         | Gas Companies   |         | Water Companies |         |
|--------------------|---------|-----------------|---------|-----------------|---------|
| Population         | License | Population      | License | Population      | License |
| 0 - 2,999          | \$ 10   |                 |         | 0 - 999         | \$ 10   |
|                    |         |                 |         | 1,000 - 2,999   | 15      |
|                    |         |                 |         | 3,000 - 4,999   | 25      |
| 3,000 - 9,999      | 40      | 0 - 10,000      | \$ 25   | 5,000 - 9,999   | 50      |
| 10,000 - 19,999    | 50      | 10,001 - 20,000 | 50      | 10,000 - 19,999 | 75      |
| 20,000 - 29,999    | 100     | 20,001 - 30,000 | 100     | 20,000 - 29,999 | 100     |
| 30,000 - 39,999    | 200     | 30,001 - 40,000 | 200     | 30,000 - 39,999 | 200     |
| 40,000 - 49,999    | 250     | 40,001 - 49,999 | 250     | 40,000 and more | 300     |
| 50,000 and more    | 300     | 50,000 and more | 300     |                 |         |

Source: Florida Statutes, 1955, 205.36, 205.42, 205.64.

If graduation of electric, gas, and water company state licenses is to continue on a population basis, the desirability of which can be questioned, the graduation of license taxes should be made uniform for electric, gas, and water companies. The only reason for the distinctions shown in Table 1 seems to be historical accident.

Telegraph systems pay a license tax of 65 cents per mile of line. This is divided evenly between the state and the counties through which the lines run on the basis of mileage, which must be measured by the actual distance from point to point and not by the number of miles of wire (F.S. 205.56). No county may levy any further license tax on telegraph systems, but cities are free to do so.

Telephone companies pay a state license based upon the number of telephones or instruments in the system. For the first 1,000 phones, the rate is 10 cents each; for the second thousand phones, the rate is eight cents each; and for all over 2,000, six cents each. A company with less than 100 phones does not pay

any license to the state (F.S. 205.57). Additional county and city licenses may be levied.

This brief summary of the major state licenses levied against public utilities by the State of Florida shows the wide variation among the license fees assessed against these companies. The characteristic lack of uniformity in base or application is particularly evident. The use of a population base for electric, gas, and water companies is a feeble attempt to adjust the license to the size of the business, but the correlation could be made much more exact by using some kind of a gross receipts base. The use of such different bases as size of municipality, number of telephones, miles of line, and miles of track makes impossible any correlation among the tax burdens of different types of public utility. Any general revision of the licensing system should eliminate public utility licenses.

**License bases.**—Various bases are used which make an attempt, differing with each industry or type of firm, to adjust the size of the license to the size of the business. Thus, wholesalers pay a \$10 license plus \$0.80 per \$1,000 of their average inventory. Restaurants and other eating places pay a license based upon the capacity of the facilities used. Contractors pay a license of \$3 plus \$1 for each employee. Theaters pay licenses based upon the size of the city in which they are located. Some of these attempts are justified and achieve partial results, while others accomplish little more justice than would a flat rate license fee. The small neighborhood theater in a big city, for example, that is forced to pay a large license fee suffers in comparison with a single theater in a small town.

Many of the rates are flat rates. These include the professions, retail stores, and many others. On any basis, flat rate licenses are inequitable. They have no relationship to any other measure, such as gross receipts, inventory, value-added, investment, profit, or any other base. The very small operator suffers because he must pay what for him is a high license fee, while the larger operator finds the license and the fee attached to it nothing but a nuisance.

If the business and professional licenses are to be used as a source of state revenue, some more uniform and fairer basis should be found which will apply equitably to all businesses and professions on a generally accepted measure of ability to pay. The need is urgent for the State of Florida to take positive affirmative action to rescue businessmen of this state from the incongruities, inequities, and inconsistencies of this archaic system of business taxation. This does not mean that businessmen should simply be relieved of the necessity of paying taxes, for the purpose of a good tax system is to divide the burden of carrying state and local governments as equitably as possible among all who can be expected to pay a share of the cost. Rather, each business should be required to pay a tax which is just and equitable in the light of what other businesses somewhat similarly



situated have to pay. The main direction of change, to accomplish this result, must be in terms of the base upon which the licenses or other business taxes are levied.

**Possible courses of action.**—Several different possibilities are open for consideration for revamping the business license system in Florida. The five possibilities to be considered briefly are: (1) Withdrawal by the state from the business license field; (2) "doctoring" of the present system by adding a few more classifications; (3) retaining the licensing system but changing to some simpler, more uniform base; (4) abandoning the license system and substituting a gross receipts tax for it; (5) abandoning the license system and substituting a value-added tax for it.

From time to time the feeling is expressed that the state should abandon the field of taxing business through the use of licenses, leaving it to be exploited more or less intensively by the county and municipal governments. If this is done, the state should withdraw from fields listed by the Comptroller under the headings of occupational licenses, retail store licenses, insurance agent licenses, and railroad, telegraph, and other public utility licenses. In the fields where the action of the state is largely regulatory—with fees intended to cover approximately the cost of administering the licenses and inspection activities—the state should continue issuing licenses, possibly with some revision of the license fee if it should be found that the fee is too large for justification on a cost-of-service basis. This would include particularly beverage licenses and hotel and restaurant licenses. In the minor fields of licensing, the state should withdraw or continue, depending upon whether the license is for revenue or for control purposes.

In withdrawing from these specific licensing fields, the state would, of course, suffer a small loss of revenue. Withdrawal from occupational, retailers, insurance, railroad, and telegraph licensing would have cost the state the loss of \$2,187,698 in 1955. The annual increase which has been taking place in revenue from licenses raised this figure to over \$2,500,000 in 1956.

Whether county and municipal exploitation of this revenue source would increase, as a result of the state's withdrawal from the field, is doubtful. Some change in the basis upon which cities and counties levy business and professional licenses would also have to take place if the cities were to realize significantly more revenue than they do at present. The likelihood of this taking place without remedial action by the state is slight. If the state desires to improve the nature of business taxation, regardless of who gets the revenue, action to place licenses on a more organized and fair basis will have to be taken.

The second possibility is to "doctor" the present system by making a series of small changes, but to retain the present basis. This would do little to alleviate the inequities, inequalities, and inconsistency of the system. A licensing system based upon such a variety of bases, as is the present Florida system, cannot accomplish a legitimate job of taxing business. No amount of such doctoring can be effective.

Some of the changes which could be made would involve adding new classifications, or moving businesses from one classification to another. The gasoline dealer's license, for example, might be repealed and the retail store license substituted for it. A system of graduation for retail stores might be used instead of the flat \$10 license now in effect. Parking lots and trailer parks might be put in a special class to be taxed on capacity rather than with a low flat rate as at present. A bill to accomplish such changes on a piecemeal basis, which is the way the present licensing system grew up, is undoubtedly in preparation for introduction into the next session of the Legislature. However well-intentioned, such a bill cannot remedy the basic defects of the present archaic system.

The third plan is to revise the entire licensing system by simplifying and placing licenses upon a more rational basis. In an effort to meet objections raised to the present crude or arbitrary methods of measuring the value of a license, or the ability to pay taxes, several municipalities have turned to gross receipts as the prime basis for determining the amount of the license. A uniform rate which is applicable to all business enterprises, however, does not achieve the desired uniformity and impartiality since the margin of profit differs widely for different businesses and occupations. One refinement of the gross receipts method is to use a different rate for various classes of business according to the different margins of profit of the different classes of business<sup>4</sup>. As of February 1, 1956, municipalities in 26 states were using gross receipts business licenses.

A bracketed rate system could be employed with licenses based upon volume of business for occupational and retailers licenses. The following suggested bracket system carries a minimum license of \$10, comparable to the present retail store license of \$10 (which, however, applies to all stores regardless of size). The license fee suggested below increases through a series of intermediate rates above the level of \$5,000 in volume, reaching a maximum \$100 tax for stores with gross receipts in excess of \$1,000,000. Each individual store or place of business would be licensed regardless of the number of companies owning the stores.

| Volume of Gross Receipts | Fee  | Volume of Gross Receipts | Fee   |
|--------------------------|------|--------------------------|-------|
| \$ 0 to \$ 5,000         | \$10 | \$200,001 to \$ 400,000  | \$ 35 |
| 5,001 to 10,000          | 15   | 400,001 to 600,000       | 55    |
| 10,001 to 50,000         | 20   | 600,001 to 800,000       | 75    |
| 50,001 to 100,000        | 25   | 800,001 to 1,000,000     | 95    |
| 100,001 to 200,000       | 30   | Over 1,000,000           | 100   |

<sup>4</sup>*Municipal Finance Officers Association, Municipal NonProperty Taxes*, 1956, p. 24. See also: James W. Martin, "Devising and Administering Municipal Gross Receipts Business Licenses," *Municipal Finance*, May, 1955, pp. 134-140.

The bracketing principle, however, complicates the statute or ordinance and presents administrative difficulties. The above rate schedule would reduce, although not necessarily eliminate, the regressive nature of the present licenses. The application of a fixed percentage rate, or of a specified number of mills per dollar of gross receipts, regardless of volume (but perhaps differing for various classes of business according to the different margins of profit involved), produces a simpler and fairer rate structure. A minimum amount, nevertheless, should be prescribed to avoid administrative difficulties with very small firms. The tax could be set, for example, at 20 cents per \$1,000 of gross receipts above the \$5,000 minimum.

These three possibilities are all really branches of the same type of system in that they all fit into the present framework. A radical departure from the present system is contemplated in the fourth plan. This is the substitution of a gross receipts tax at a low rate for the present license system. The nature, application, and implication of the gross receipts tax are discussed in a later section of this report.

Still another alternative departure from the present system, the fifth possibility, would involve the use of a value-added tax such as that currently being used in Michigan. Described in later pages, this tax was first introduced in 1953 and was made a permanent part of the Michigan revenue system in 1955 when the 1953 law was revised and strengthened. The use of the gross receipts tax or of the value-added tax as a major source of state revenue would be advocated only as a contingency based upon future action by the state Legislature which may require major additional tax sources. A revision of the licensing system, however, to achieve greater equity and justice among taxpayers need not wait for demands for additional revenue. Nor should a revision in terms of city and county participation wait upon increasing state revenue needs.

**Revenue from licenses and fees.**—Revenue received by the State of Florida from the major classes of fees levied under state law is shown in Table 2. This table sets forth the revenue received from each of nine different groups of licenses or fees by fiscal year from 1951 to 1956, together with the percentage change in revenue from each source from 1951 to 1956. Occupational licenses—the general heading under which business and professional fees and licenses are shown—constitute only a small percentage of the total revenue from fees and licenses. Revenue from this source amounted to \$1,384,000 in 1956, or slightly under 10 per cent of the state revenue from all business licenses and fees. See pp. 14-15.

With the exception of retail store licenses, all other sources of licenses and fees shown in Table 2 increased in some measure according to the growth in wealth, population, and economic activity in the state. The lowest per cent of increase was for vendors, manufacturers, and distributors of alcoholic beverages; this



**TABLE 2.—SELECTED MAJOR SOURCES OF STATE REGULATORY LICENSES  
AND INSPECTION FEES: FISCAL YEARS 1951 TO 1956**  
(Amounts in thousands of dollars)

| Type of License                                            | 1951     | 1952     | 1953     | 1954     | 1955     | 1956     | Per-<br>cent-<br>age<br>change<br>1951<br>to<br>1956 |
|------------------------------------------------------------|----------|----------|----------|----------|----------|----------|------------------------------------------------------|
| Drivers' licenses                                          | \$ 1,416 | \$ 1,531 | \$ 1,666 | \$ 1,760 | \$ 1,884 | \$ 2,511 | 77%                                                  |
| Citrus inspection                                          | 1,340    | 1,689    | 1,783    | 1,982    | 1,838    | 1,917    | 43                                                   |
| Gas and oil inspection                                     | 1,152    | 1,254    | 1,361    | 1,458    | 1,601    | 1,784    | 55                                                   |
| Vendors, mfgs., and distributors<br>of alcoholic beverages | 1,238    | 1,300    | 1,321    | 1,531    | 1,525    | 1,555    | 26                                                   |
| Fresh water fishing, hunting,<br>and boating licenses      | 1,049    | 1,181    | 1,540    | 1,455    | 1,542    | 1,539    | 47                                                   |
| Occupational licenses                                      | 948      | 1,010    | 1,089    | 1,192    | 1,262    | 1,384    | 46                                                   |
| Fruit and vegetable inspection                             | 579      | 639      | 668      | 849      | 895      | 1,014    | 70                                                   |
| Hotel and restaurant licenses                              | 232      | 237      | 247      | 323      | 348      | 549      | 136                                                  |
| Retail store licenses                                      | 833      | 914      | 960      | 501      | 364      | 434      | -48                                                  |

Source: Florida Comptroller, Annual reports for fiscal years 1951 to 1956.

grew from \$1,238,000 to \$1,555,000, or a rise of only 26 per cent. Hotel and restaurant licenses registered the largest increase with 136 per cent from 1951 to 1956.

The one class in Table 2 which revealed a decrease in revenue from 1951 to 1956 was retail store licenses. This decrease came about because of the repeal, in 1953, of the chain store tax on retail stores. Revenue from this source decreased from \$960,000 in the fiscal year 1953 to \$364,000 in 1955. The chain store tax levied license fees as high as \$400 per store, depending upon the number of stores of the chain in Florida. The number of store licenses, however, is increasing; in 1956 the number was almost 20 per cent larger than in 1955. In 1956, 41,403 licenses were issued; these, with penalties, brought total revenue from this source to \$434,000.

A more detailed break-down of nearly all state business licenses and fee revenue in 1956 by class, showing the chief sources of revenue within each class, is contained in Table 3. The total revenue is reported for each class of licenses, together with the individual licenses or sources which produced as much as \$70,000 during 1956. The cut-off point of \$70,000 was chosen arbitrarily in order to make the table manageable, but at the same time to report the distribution of the main sources of revenue among the various licenses and fees.

TABLE 3.—MAJOR BUSINESS LICENSE AND FEE REVENUES OF  
THE STATE, BY CLASS TOTALS AND CHIEF SOURCES  
WITHIN CLASS: 1956

(Sources in first column limited to those producing over \$70,000)

| Class and Source                                         | Source Total | Class Total  |
|----------------------------------------------------------|--------------|--------------|
| Total                                                    |              | \$14,575,068 |
| <b>Advertising</b>                                       |              | 97,980       |
| Outdoor advertisers                                      | \$ 97,980    |              |
| <b>Amusements</b>                                        |              | 1,706,562    |
| Facilities of state parks                                | 132,935      |              |
| Fishing licenses                                         | 819,849      |              |
| Hunting licenses                                         | 677,561      |              |
| Racing permits and occupation licenses                   | 75,267       |              |
| <b>Banking and related businesses</b>                    |              | 399,459      |
| Bank or trust company examinations                       | 108,175      |              |
| Securities dealers and stock registrations               | 164,632      |              |
| Small loan companies                                     | 111,270      |              |
| <b>Fisheries and boat businesses</b>                     |              | 144,147      |
| Commercial boats, fishermen, dealers,<br>etc.—salt water | 116,463      |              |
| <b>Food, drink, and lodging</b>                          |              | 1,866,560    |
| Alcoholic beverages                                      | 1,516,047    |              |
| Meat inspection fees                                     | 180,152      |              |
| Public eating places                                     | 161,321      |              |
| <b>Fuel</b>                                              |              | 1,882,209    |
| Gas and oil inspection fee                               | 1,784,020    |              |
| <b>Inspection fees (agricultural)</b>                    |              | 4,079,646    |
| Citrus                                                   | 1,916,764    |              |
| Commercial feed                                          | 253,917      |              |
| Egg and poultry                                          | 305,498      |              |
| Fertilizer                                               | 383,719      |              |
| Fruit and vegetable                                      | 1,013,647    |              |
| <b>Insurance companies and agents</b>                    |              | 757,223      |
| Agents, solicitors, and adjusters'<br>licenses—state     | 364,097      |              |
| Agents, solicitors, and adjusters'<br>licenses—county    | 165,016      |              |
| Company licenses                                         | 147,500      |              |
| <b>Occupational licenses</b>                             |              | 1,384,489    |
| Revenue by source not available                          |              |              |
| <b>Professions</b>                                       |              | 454,438      |
| Nurses                                                   | 161,510      |              |
| <b>Search on copying records fees</b>                    |              | 277,026      |
| Birth and death certificates                             | 102,119      |              |
| Certifying, etc., by Secretary of State                  | 130,297      |              |

TABLE 3.—MAJOR BUSINESS LICENSE AND FEE REVENUES OF  
THE STATE BY CLASS TOTALS AND CHIEF SOURCES  
WITHIN CLASS: 1956—(Contd.)

| Class and Source                      | Source Total | Class Total  |
|---------------------------------------|--------------|--------------|
| <b>Service vocations and business</b> |              | \$ 1,079,548 |
| Beauticians                           | \$ 112,292   |              |
| Milk dealers, etc.                    | 152,886      |              |
| Public lodgings                       | 342,807      |              |
| Real estate brokers and salesmen      | 320,066      |              |
| <b>Transportation</b>                 |              | 286,461      |
| Auto transportation company permits   | 84,728       |              |
| Railroad company licenses             | 71,768       |              |
| <b>Miscellaneous</b>                  |              | 159,320      |
| Bedding inspection fees               | 70,145       |              |

Source: Florida Comptroller, office records and *Annual Report for Fiscal Year 1956*.

Licenses and fees not listed in Table 3 are small or even negligible revenue producers. With many of these charges, however, revenue is not the prime factor since the licenses are used for control purposes and the revenue obtained from them is more or less incidental. Worthy of note again is the fact that the occupational licenses, which are levied mainly for revenue purposes, produced under 9 per cent of the total state revenue from licenses and fees. The total for all classes amounting to \$70,000 or more accounts for over 80 per cent of all state licenses and fees analyzed.

Table 4 has been prepared to illustrate the widespread infiltration of licenses and fees into the state revenue system. In this table, the amounts of revenue received by fund and department are shown in the first column for fees for which no licenses were issued, and in the second column for license fees for which licenses were issued. Automobile licenses and drivers licenses, amounting to \$38,913,707, are both excluded from the tabulation since they differ significantly from other types of licenses.

Total license charges received in 1956 amounted to \$5,142,570, while fees for which no license was issued amounted to \$9,648,856, or a total of \$14,791,426. General inspection fees of the Department of Agriculture, federal-state inspection service fees, and auto theft fees constituted the three largest items. Many other fees for which no licenses were issued, as reported in Table 4, were also collected.

**State, county, and municipal revenue.**—Florida uses a three-level system of business licenses, with the state and county licenses closely connected, as has already been indicated, and with municipal licenses largely independent of the other two. The division of revenue among the three levels at which licenses are administered, however, is necessary in assessing the importance of the licensing system to each of the three levels of government.

Table 5 sets forth the distribution of a major portion of the



TABLE 4.—REVENUE OF STATE AGENCIES FROM LICENSES  
AND FEES, BY AGENCY: 1956

(Exclusive of motor vehicle and drivers' licenses)

| Fund and Agency                                 | Fees<br>Without<br>Licenses | License<br>Fee<br>Revenue |
|-------------------------------------------------|-----------------------------|---------------------------|
| Total                                           | \$ 9,648,856                | \$ 5,142,570              |
| <b>General Revenue Fund</b>                     | 739,226                     | 3,198,828                 |
| Judicial                                        | 18,835                      |                           |
| Governor's Office                               | 1,090                       |                           |
| Secretary of State                              | 136,531                     |                           |
| Comptroller                                     | 200,843                     | 1,939,738                 |
| Treasurer                                       | 60,885                      | 538,246                   |
| Florida RR & PU Commission                      |                             | 55,800                    |
| Florida Livestock Board                         | 316                         |                           |
| State Board of Health                           | 137,868                     |                           |
| Hotel and Restaurant Commission                 |                             | 548,581                   |
| State Board of Conservation                     | 800                         | 116,463                   |
| Florida Securities Commission                   | 164,633                     |                           |
| Florida Parole Commission                       | 17,110                      |                           |
| Florida Industrial Commission                   | 315                         |                           |
| <b>State Agencies Fund</b>                      | 1,390,573                   | 1,600,660                 |
| Treasurer                                       | 17,030                      |                           |
| State Racing Commission                         | 45,115                      | 61,831                    |
| Florida Livestock Board                         | 86,845                      |                           |
| Game and Fresh Water Fish Commission            |                             | 1,538,829                 |
| State Plant Board (nursery inspection fee)      | 67,921                      |                           |
| Florida Industrial Commission                   | 23,364                      |                           |
| Minor regulatory boards                         | 1,150,298                   |                           |
| <b>General Inspection Fund</b>                  | 6,178,704                   | 30,880                    |
| Dept. of Agriculture (general inspection)       | 5,165,057                   | 30,880                    |
| Dept. of Agriculture (state inspection service) | 1,013,647                   |                           |
| <b>State Road Fund</b>                          | 97,980                      |                           |
| State Road License Fund (outdoor ad.)           | 97,980                      |                           |
| <b>Trust Funds</b>                              | 1,340,353                   | 312,202                   |
| Comptroller                                     | 22,969                      | 109,653                   |
| Treasurer                                       |                             | 165,017                   |
| Department of Education                         | 517,486                     |                           |
| Development Commission                          |                             | 37,532                    |
| State Board of Forestry                         | 490,503                     |                           |
| Board of Parks and Historic Monuments           | 132,935                     |                           |
| Board of Control                                | 176,460                     |                           |

Source: Schedule I of Exhibit B, *Comptroller's Report*, 1956.

total license revenue among the three levels of government in Florida. The figures in the table must be considered as applying only to the specified items and not to the total license picture since many minor state licenses are omitted. The state's revenue from licenses in 1955, excluding drivers' and automobile licenses, was approximately \$1.1 million more than the \$4.0 million shown in the table. County and municipal figures, although subject to error, are shown as completely as present reporting methods permit.

TABLE 5.—STATE, COUNTY, AND MUNICIPAL LICENSES  
COLLECTED FROM SAME BUSINESS BASE: 1954-55

| Type                           | Amount       | Per Cent<br>of Total |
|--------------------------------|--------------|----------------------|
| <b>All Florida governments</b> | \$15,193,321 | 100.00%              |
| <b>State</b>                   | 4,005,258    | 26.36                |
| Beverage                       | 1,469,775    | 9.67                 |
| Occupational                   | 1,261,993    | 8.30                 |
| Retailers                      | 364,184      | 2.40                 |
| Hotel and restaurant           | 347,765      | 2.29                 |
| Insurance agents               | 456,823      | 3.01                 |
| Railroad and telegraph         | 104,698      | .69                  |
| <b>County</b>                  | 2,076,148    | 13.67                |
| Occupational                   | 686,790      | 4.52                 |
| Beverage                       | 1,389,358    | 9.15                 |
| <b>Municipal</b>               | 9,111,935    | 59.97                |
| Occupational and beverage      | 9,111,935    | 59.97                |

Of the \$15.2 million reported from this source in 1955, approximately one-quarter was collected by the state, 14 per cent by the counties, and the balance of 60 per cent by the municipalities. On the basis of minor state items omitted, the state received somewhat more than 26 per cent of the total revenue from licenses.

The relation between state, county, and municipal licenses to personal income and population is analyzed in Table 6. This table shows total license revenue for counties and municipalities and most of the state license revenue according to collection in Florida's 67 counties. Collections for a few state licenses were not available on a county-by-county basis, and so could not be included. The distribution of the omitted state licenses among the counties would likely be similar to the distribution of occupational and beer and liquor licenses shown in the table. Accordingly, the relationships between counties would not be greatly changed by the inclusion of the balance of the state license revenue.

Florida counties are arranged in Table 6 by groups of personal income per capita, varying from over \$1,800 in two counties (Dade and Hendry) to the \$500 to \$700 group consisting of nine counties. This table reveals the tax burden of license revenue expressed by the amount, the per capita, and the per cent licenses were of personal income of residents for each county. As might be expected, a direct relation or correlation was revealed between per capita personal income and per capita license fee collection. Only a moderate correlation was disclosed between per capita personal income and the weight of the tax burden expressed by license fee revenue as a per cent of personal income. Since the correlation was not exact, the tax burden varied too widely from ability to pay as indicated by the personal income from which taxes are paid.

A small group of the larger counties accounted for the major

TABLE 6.—STATE, COUNTY, AND MUNICIPAL OCCUPATIONAL AND  
BEER AND LIQUOR LICENSES IN COUNTIES GROUPED BY  
LEVELS OF PERSONAL INCOME PER CAPITA: 1954-1955

| County Level of<br>Personal Income | Total        |               |                                           | State       | County      | Muni-<br>cipal |
|------------------------------------|--------------|---------------|-------------------------------------------|-------------|-------------|----------------|
|                                    | Amount       | Per<br>Capita | Per<br>Cent<br>of Per-<br>sonal<br>Income |             |             |                |
| <b>STATE TOTAL</b>                 | \$13,864,225 | \$3.93        | 0.26%                                     | \$2,676,142 | \$2,076,148 | \$9,111,935    |
| <b>Over \$1,800</b>                | 4,417,910    | 6.82          | .34                                       | 759,027     | 628,954     | 3,029,929      |
| Dade                               | 4,402,274    | 6.85          | .34                                       | 755,267     | 626,110     | 3,020,897      |
| Hendry                             | 15,636       | 2.70          | .09                                       | 3,760       | 2,844       | 9,032          |
| <b>\$1,500-\$1,800</b>             | 2,930,046    | 3.25          | .19                                       | 638,102     | 474,536     | 1,817,408      |
| Duval                              | 1,110,095    | 2.93          | .16                                       | 236,558     | 176,264     | 697,273        |
| Orange                             | 474,795      | 2.68          | .18                                       | 120,912     | 92,938      | 260,945        |
| Palm Beach                         | 873,371      | 5.76          | .34                                       | 181,031     | 145,649     | 546,691        |
| Polk                               | 292,159      | 1.87          | .12                                       | 63,215      | 35,378      | 193,566        |
| Sarasota                           | 179,626      | 4.63          | .29                                       | 36,386      | 24,307      | 118,933        |
| <b>\$1,300-\$1,500</b>             | 4,764,362    | 4.27          | .30                                       | 880,381     | 670,993     | 3,212,988      |
| Broward                            | 1,068,549    | 7.08          | .48                                       | 201,100     | 158,996     | 708,453        |
| Collier                            | 35,165       | 3.23          | .22                                       | 9,862       | 8,114       | 17,189         |
| Escambia                           | 488,689      | 3.24          | .22                                       | 99,383      | 79,766      | 309,540        |
| Flagler                            | 10,233       | 2.44          | .18                                       | 2,952       | 2,456       | 4,825          |
| Glades                             | 4,917        | 2.05          | .14                                       | 2,021       | 1,648       | 1,248          |
| Gulf                               | 17,380       | 2.00          | .14                                       | 4,080       | 3,396       | 9,904          |
| Highlands                          | 22,827       | 1.52          | .10                                       | 7,248       | 5,088       | 10,491         |
| Hillsborough                       | 1,387,931    | 4.43          | .31                                       | 222,520     | 168,161     | 997,250        |
| Indian River                       | 47,831       | 3.30          | .23                                       | 10,332      | 8,039       | 29,460         |
| Lake                               | 81,478       | 1.83          | .12                                       | 21,653      | 16,538      | 43,287         |
| Lee                                | 140,223      | 4.67          | .35                                       | 25,299      | 18,974      | 95,950         |
| Leon                               | 100,422      | 1.75          | .13                                       | 16,231      | 10,045      | 74,146         |
| Monroe                             | 157,351      | 3.32          | .25                                       | 35,412      | 29,768      | 92,171         |
| Pinellas                           | 1,014,791    | 4.84          | .34                                       | 181,625     | 128,669     | 704,497        |
| St. Johns                          | 86,720       | 2.97          | .20                                       | 22,649      | 17,848      | 46,223         |
| St. Lucie                          | 99,855       | 3.81          | .29                                       | 18,014      | 13,487      | 68,354         |
| <b>\$1,100-\$1,300</b>             | 1,167,546    | 2.68          | .22                                       | 250,197     | 194,601     | 722,748        |
| Bay                                | 213,915      | 2.83          | .30                                       | 27,236      | 21,793      | 164,886        |
| Brevard                            | 119,189      | 2.51          | .20                                       | 24,207      | 19,231      | 75,751         |
| Charlotte                          | 16,120       | 3.75          | .32                                       | 4,438       | 3,626       | 8,056          |
| Clay                               | 19,791       | .99           | .08                                       | 3,007       | 2,186       | 14,598         |
| DeSoto                             | 13,516       | 1.55          | .13                                       | 3,679       | 2,587       | 7,250          |
| Gadsden                            | 27,847       | .84           | .07                                       | 7,453       | 4,498       | 15,896         |
| Marion                             | 77,534       | 1.81          | .15                                       | 24,400      | 17,315      | 35,819         |
| Martin                             | 32,413       | 3.56          | .29                                       | 8,804       | 6,470       | 17,139         |
| Nassau                             | 26,089       | 1.79          | .16                                       | 8,273       | 6,896       | 10,920         |
| Okaloosa                           | 69,217       | 1.50          | .12                                       | 13,822      | 11,665      | 43,730         |
| Pasco                              | 40,990       | 1.63          | .15                                       | 14,173      | 11,340      | 15,477         |
| Putnam                             | 51,975       | 1.88          | .17                                       | 14,115      | 11,006      | 26,854         |
| Taylor                             | 20,545       | 1.67          | .14                                       | 6,077       | 4,839       | 9,629          |
| Volusia                            | 438,405      | 5.00          | .39                                       | 90,513      | 71,149      | 276,743        |
| <b>\$900-\$1,100</b>               | 370,041      | 1.71          | .17                                       | 94,234      | 66,311      | 209,496        |
| Alachua                            | 85,137       | 1.45          | .13                                       | 19,820      | 11,296      | 54,021         |
| Citrus                             | 9,616        | 1.63          | .18                                       | 6,480       | 1,506       | 1,630          |
| Columbia                           | 31,276       | 1.59          | .16                                       | 8,018       | 6,921       | 16,337         |
| Hardee                             | 7,607        | .67           | .06                                       | 1,716       | 1,550       | 4,341          |
| Hernando                           | 6,325        | .80           | .08                                       | 2,592       | 1,714       | 2,019          |
| Jackson                            | 38,575       | 1.08          | .12                                       | 7,386       | 6,426       | 24,763         |
| Manatee                            | 118,606      | 2.76          | .26                                       | 28,749      | 21,322      | 68,535         |
| Seminole                           | 72,899       | 2.12          | .21                                       | 19,473      | 15,576      | 37,850         |



TABLE 6.—STATE, COUNTY, AND MUNICIPAL OCCUPATIONAL AND BEER AND LIQUOR LICENSES IN COUNTIES GROUPED BY LEVELS OF PERSONAL INCOME PER CAPITA: 1954-1955—(Contd.)

| County Level of Personal Income | Total   |            |                             | State  | County | Municipal |
|---------------------------------|---------|------------|-----------------------------|--------|--------|-----------|
|                                 | Amount  | Per Capita | Per Cent of Personal Income |        |        |           |
| \$700-\$900                     | 141,710 | 1.11       | .14                         | 37,828 | 28,298 | 75,584    |
| Bradford                        | 10,765  | .93        | .13                         | 2,724  | 1,581  | 6,460     |
| Gilchrist                       | 3,830   | 1.24       | .16                         | 1,358  | 1,145  | 1,327     |
| Hamilton                        | 8,940   | .97        | .14                         | 1,304  | 776    | 6,860     |
| Jefferson                       | 6,013   | .61        | .08                         | 1,184  | 782    | 4,047     |
| Lafayette                       | 2,411   | .78        | .10                         | 909    | 792    | 710       |
| Levy                            | 19,856  | 2.03       | .24                         | 8,045  | 6,041  | 5,770     |
| Liberty                         | 852     | .34        | .04                         | 503    | 349    | .....     |
| Madison                         | 11,966  | .82        | .10                         | 2,544  | 1,524  | 7,898     |
| Okeechobee                      | 7,407   | 1.85       | .25                         | 2,210  | 1,713  | 3,484     |
| Osceola                         | 28,588  | 2.31       | .26                         | 8,245  | 6,849  | 13,494    |
| Santa Rosa                      | 10,125  | .47        | .06                         | 2,420  | 1,793  | 5,912     |
| Sumter                          | 15,231  | 1.42       | .16                         | 3,902  | 3,286  | 8,043     |
| Suwannee                        | 15,726  | 1.01       | .11                         | 2,480  | 1,667  | 11,579    |
| \$500-700                       | 72,610  | 1.01       | .16                         | 16,373 | 12,455 | 43,782    |
| Baker                           | 4,459   | .66        | .10                         | 1,388  | 288    | 2,783     |
| Calhoun                         | 7,123   | .96        | .14                         | 1,421  | 1,745  | 3,957     |
| Dixie                           | 4,978   | 1.35       | .20                         | 1,710  | 1,328  | 1,940     |
| Franklin                        | 17,795  | 3.23       | .47                         | 4,418  | 3,514  | 9,863     |
| Holmes                          | 3,928   | .31        | .06                         | 1,721  | 1,112  | 1,095     |
| Union                           | 3,266   | .59        | .10                         | 1,049  | 935    | 1,282     |
| Wakulla                         | 1,663   | .34        | .06                         | 917    | 746    | .....     |
| Walton                          | 8,152   | .56        | .09                         | 2,552  | 1,873  | 3,727     |
| Washington                      | 21,246  | 2.02       | .31                         | 1,197  | 914    | 19,135    |

Source: State and county data from the Comptrollers reports, 1955; municipal data from the Tax Council survey of municipal finance.

portion of the collections of license tax revenue by municipalities. These counties, of course, were those which contain a large urban concentration of population. The cities in Dade County alone received almost a third of the total city revenue collected from licenses. In each of six counties (Dade, Hillsborough, Broward, Pinellas, Duval, and Palm Beach), the municipalities received over \$500,000 from licenses. These six counties accounted for 73 per cent of the total revenue collected by Florida cities from this source. The cities in the other 61 counties collected 27 per cent of the total municipal revenue from this source. The degree of urbanization, reflected especially in municipal collections, importantly affected the tax burden of individual counties. The largest collections per capita were in urban Broward and Dade, but urban Duval, Orange, and Polk were under-average on a per capita basis. Although a majority of the rural counties bore relatively moderate license loads, the burden was heavier in a number of them than might be anticipated.

An improvement in the base, upon which this type of tax is levied, could bring increased revenue to all three of these types of Florida government. Equally important, the tax load would be distributed more equitably.

## Municipal Licenses and Fees

Municipalities in Florida levy license taxes and fees under either general or local acts. In most cases, municipalities have been freed of the restrictions imposed under the general enactment by the passage of special local laws. These give the municipality the right to levy reasonable license fees upon businesses and professions operating within their boundaries. The limitation that the fees must be "reasonable" is usually not oppressive upon the municipalities, although a city can possibly fix a license fee so high that the unreasonable rate must be lowered. Cities are not specifically limited to the same businesses and professions for licensing purposes as those licensed by the state. The list of licenses issued by the state, however, is so extensive, when both occupational license and those issued by regulatory agencies are included, that not many businesses escape the requirement of a state license.

Municipal ordinances levying license fees on businesses and professions are enacted by the city commission, or other governing body of the city. City tax authorities, the city assessor and the city collector, are responsible for the administration of these license fees. The laws are as well or as poorly administered as these agencies see fit. Since all of the revenue comes to the cities and improved administration frequently brings increased revenue, the cities have an incentive to improve collections.

**Municipal rate structures.**—In studying municipal rate structures, 43 municipalities, having populations over 5,000, furnished their license ordinances or detailed license information. Some of the city ordinances, especially for the larger cities, were very comprehensive, covering hundreds of activities; ordinances for smaller municipalities, on the other hand, were much more limited, covering a much smaller number of activities. Rates of fees charged also varied widely, of course, for different occupational or business licenses. The 40 licenses most commonly used among the cities which replied were selected as a basis for study to determine the nature of the rate structures used.

Rates for occupational licenses for the 40 occupations covered vary widely among the 43 municipalities canvassed. Generally, the highest rates are charged for utility, telephone, and telegraph companies, banks and loan companies, and shows—both movie theaters and circuses. License rates over \$250 applied only to these seven businesses listed.

A license for practicing a profession costs \$25 in 40 per cent of the municipalities. The number of municipalities charging the \$25 rate is compared in the following tabulation with the number of sample municipalities reporting the specified professional licenses:

**Occupation****Municipalities  
Charging \$25**

|              |          |
|--------------|----------|
| Accountant   | 16 of 37 |
| Architect    | 15 of 37 |
| Attorney     | 17 of 41 |
| Dentist      | 15 of 40 |
| Engineer     | 15 of 36 |
| Physician    | 15 of 40 |
| Veterinarian | 15 of 36 |

Vending machines, on a schedule of charges by occupation, would appear to have the lowest occupational license rate—17 of 20 municipalities charging \$5 or less per machine. This is not conclusive, however, as companies operating vending machines probably operate a number of machines, while the reported rate is for a single machine. The license rate for a company will probably be high when this factor is considered. This same treatment applies to a number of the other retail businesses compared. Rates for drug, grocery, and retail stores in a number of cities are based on a \$20,000 value of stock. A higher or lower stock value would be reflected by a corresponding change in the license rate.

Table 7 sets forth the ranges of license rates and the number of license classes to which each range applies in the 43 sample municipalities. Out of the 1,720 classes of occupation included in the listing used, 346 required no license. In some instances the city required no license at all. The 1,374 classes for which licenses were charged were divided into rate ranges. The largest number of licenses was found to be in the \$21-\$30 range. Moving on up the scale, a large number was in the \$41-\$50 range. More licenses were in the \$76-\$100 range than in the one below of \$51-\$75. The 45 licenses in the brackets of over \$250 applied only to utility, telephone and telegraph, banking companies, or to movie theaters and circuses.

TABLE 7.—MUNICIPAL LICENSE RATES CHARGED FOR 40  
OCCUPATIONS BY 43 SAMPLE MUNICIPALITIES: 1956

| Size Class of<br>License Rates | No. of<br>Occupation<br>Classes | Size Class of<br>License Rates | No. of<br>Occupation<br>Classes |
|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Total                          | 1,720                           | \$ 76 - \$ 100                 | 95                              |
| Classes with licenses          | 1,374                           | 101 - 150                      | 45                              |
| Classes without licenses       | 346                             | 151 - 200                      | 29                              |
| To \$10                        | 174                             | 201 - 250                      | 24                              |
| \$11 - \$20                    | 214                             | 251 - 300                      | 15                              |
| 21 - 30                        | 369                             | 301 - 400                      | 12                              |
| 31 - 40                        | 120                             | 401 - 600                      | 10                              |
| 41 - 50                        | 186                             | 601 - 1,000                    | 5                               |
| 51 - 75                        | 73                              | Over 1,000                     | 3                               |

The bases upon which municipal licenses are levied are the same, in general, as those used by the state and counties, although the municipal rate structures differ and in general are higher than those of the state and counties. The whole system of municipal licenses is subject to the same criticism on the basis of inequities



and inconsistencies as the state system. The flat rate license, combined with crude attempts to achieve some semblance of adjustment to ability to pay, result in the same basic structure. When licenses are used only for regulatory purposes, the criticisms are not so important because only a very small amount of revenue is involved. When demands for enlarged revenues arise, municipal business licenses become a potential source of additional revenue. In this case, mere rate increases cannot meet the situation without hardships upon some taxpayers and favoritism to others.

**Suggested municipal changes.**—The basis for the suggested changes in municipal licenses is the same as the basis on which changes in the state licensing system were suggested. The purpose of the revision would be to eliminate the chaotic system of bases and rates which now exists in the interest of greater equity among and between taxpayers. Such a change, coupled with a substantial tax rate levied on a gross receipts base, could increase significantly the amount of revenue now being received by the Florida municipalities from business license fees.

Any action taken by Florida municipalities toward revising their license rates and bases will necessarily be considered in connection with—and in relation to—any state action in regard to the state licensing system. Should the state withdraw from the licensing field, cities and counties would be left to occupy the field; and they would undoubtedly be forced by circumstances to form some kind of a cooperative working arrangement in the field of business licenses. For example, county licenses could apply only to businesses outside of municipal limits, while city licenses applied inside of city limits, or county licenses could apply at low rates to all businesses in the county as at present.

If the state establishes a system of licensing based upon a variation of gross receipts, or upon value added, the cities are placed in a different situation. One possibility would be for the cities to continue with their present systems of licensing. This, however, does not eliminate the archaic system of bases now used, and the elimination of this system is one of the end results to be obtained from revision. Another possibility would be for the state to levy a gross receipts tax with only a small amount of the revenue retained by the state to pay for the administrative cost and perhaps as replacement for the state revenue foregone in abandoning the present licensing system. The balance of the revenue would be distributed to the cities and counties in which collected or on another basis.

Still another possibility would be for the state to establish a low rate of tax for state and county purposes, and at the same time to collect a supplementary or sur-rate which would be added to the state rate by any city which wished to take advantage of the plan. The tax would be state-administered, with the revenue collected within a particular city returned directly to the city with no restrictions attached to its use. This plan would be simi-

lar to the arrangement in several states under which the cities or counties optionally can levy a fixed sales tax rate to be added to the state rate and collected within the cities. The state-collected revenue is returned directly to the cities without strings.

**Revenue from municipal licenses.**—Reference to Table 8 indicates that all Florida municipalities collected \$9,111,935 from municipal licenses in fiscal 1955. This amount was considerably more than was collected from similar licenses in that year by the state and the counties combined. The revenue received is a measure of the importance attached to licenses by the different levels of government. License revenue constituted 6.23 per cent of total revenue collections by Florida cities in 1955. Among individual cities, of course, the percentage varied widely according to whether or not the city made intensive use of the license fee as a source of city revenue.

Among Florida cities with over 5,000 population, only 10 received over 10 per cent of their operating revenue from license fees and only two of these, Miami Beach and Panama City, were in the size group of 10,000 or over population. The other eight were Boynton Beach, Crestview, Dania, Deerfield Beach, Fort Walton Beach, Hallandale, Holly Hill, and North Miami Beach. At the other extreme, among cities over 5,000 population making any use of licenses, three received less than two per cent of their revenue from this source. These were Mt. Dora, Sebring, and St. Cloud.

The four cities having over 100,000 population collected almost 40 per cent of the total revenue collected by cities from licenses, while all cities with a population over 25,000 collected almost 75 per cent of the total. Licenses, in addition to bringing much more revenue to these cities than to smaller cities, were more important in their revenue structure since they provided a larger per cent of their total revenue. All cities with populations less than 5,000 received together less than \$500,000 in license revenue, which constituted approximately 5 per cent of the total city revenue. The distribution of license revenue among cities over 5,000 population was as follows in 1955:

| Population Class              | Amount of License Revenue | Per Cent of City Total Revenue | Per Cent of City License Revenue in Florida |
|-------------------------------|---------------------------|--------------------------------|---------------------------------------------|
| Over 100,000 (4 cities)       | \$ 3,610,598              | 6.02%                          | 39.53%                                      |
| 25,000 to 100,000 (14 cities) | 3,095,652                 | 6.97                           | 33.97                                       |
| 10,000 to 25,000 (17 cities)  | 880,680                   | 5.38                           | 9.67                                        |
| 5,000 to 10,000 (70 cities)   | 1,076,894                 | 5.77                           | 11.82                                       |

Percentage relationships indicate that Florida cities do not exploit business licenses to their fullest extent as a source of local revenue. With the present base, however, the collection of significant additional amounts of revenue by raising rates would work insupportable hardships on some types of business while allowing

others to escape. More revenue should come only on the basis of a revision of the entire structure of the municipal business license tax.

### **Stock-in-Trade or Inventory Tax**

The so-called "inventory tax" or "stock-in-trade tax" is levied as a personal property tax on the average value of merchandise stock of retail and wholesale merchants. This county tax is assessed by the county tax assessor and collected by the county tax collector. The revenue from the tax goes into the county general revenue fund. The state has nothing to do with this particular tax, either insofar as to administration or revenue. The tax is levied under Chapter 192 of the Florida Statutes.

The county tax assessor has the responsibility of finding out how much is the average inventory of businesses subject to the tax for the tax year, and of putting this amount on the tax roll. In actual practice, of course, counties probably differ widely in their procedure for assessing this property. As a result, the tax differs widely from county to county in its impact. Inventories are not likely to be assessed anywhere near 100 per cent of their average value. In one county they are assessed at 60 per cent on the theory that, since losses always occur in business inventories, a 100 per cent valuation would be unfair. The tax rate which applies is the county millage for the county in which the business is located.

The stock-in-trade tax, from a standpoint of uniformity and of equity as among businesses, is subject to much the same criticism as any ad valorem tax levied on a county by county basis. The millage rates differ widely from county to county. Perhaps a more telling point against the tax is the probability that within any one county, assessment ratios will vary from business to business, and thus the tax will bear much more heavily upon one business than upon another. Inherent in the tax is an inequity since the tax penalizes those businesses with large inventories and low rates of turnover as against those businesses with a high rate of turnover and an inventory which is small in comparison with the volume of business.

To justify the difference between the treatment of retailers and of wholesalers under present laws is impossible. The retail merchant, under the Chain Store Act (F.S. 204.02) pays a flat \$10 license. This remnant of the Chain Store Act exempts retail merchants from occupational licenses, so the retail stores pay no county license. They do pay the personal property tax on their inventories. Wholesale merchants, on the other hand, pay a state occupational license of \$10 plus 80 cents per \$1,000 of average inventory, a county occupational license of half this amount, and the personal property tax on average inventory. What this amounts to is that the wholesaler pays \$1.20 per \$1,000, or 12 mills more on his inventory than does the retailer; plus, of course, the extra \$5 on the county license. The discrimination piled on discrimination should be terminated.



The question of what should be done to the inventory tax, cannot be considered separately from the answer to the entire license tax question. If the retail store license tax is left at \$10 a year for all retail stores, little reason exists for removing the inventory tax. In this case, the equity of the tax on a state-wide basis could be improved by the establishment of a formula for the determination of the taxable value of inventories which all county tax assessors should follow. Since other property is not assessed at full value, a formula for assessment, such as 50 per cent of the book value of average inventories to be taxed at the county rate, might be made mandatory. A better solution would be to raise all assessments to 100 per cent of full cash value, according to law, and to reduce the millage correspondingly.

If the licensing system is revised so that retailers pay a license fee or a tax based upon the gross receipts, then taxes will have been adjusted to ability to pay. A gross receipts tax would eliminate the need for an inventory or stock-in-trade tax to equalize the burdens among different sizes of businesses. If that change is made in the licensing system, the inventory tax should be abolished with reference both to the personal property tax on merchandise stock and the 80 cents per \$1,000 of wholesale inventories. In the absence of such action, however, the personal property inventory tax should remain on merchandise stock, but the 80 cents per \$1,000 tax on wholesalers should be repealed.

The preferred change would be for the licensing system to be abolished with a value-added tax to be substituted therefor. An alternative contemplates the use of a gross receipts tax in place of the value-added tax. In the event no major change is made in the licensing system, consideration should be given to a limited gross receipts tax at a low rate of possibly 1 mill to apply to all merchants. This would replace and be in lieu of all state and county license and inventory taxes presently levied on these merchants. A minimum amount of the revenue from this tax would be retained by the state and the balance would go to the counties to replace the revenue lost through the elimination of the taxes on inventories. Such a tax should bring in upwards of \$10,000,000 annually.

### **Agricultural Inspection Fees**

Florida, as has been indicated previously, makes use of a wide variety of licenses in addition to those included under Chapter 205 as occupational licenses. While these licenses are administered largely by regulatory boards or commissions, some of them are mainly for revenue and others are essentially control devices. In addition, a wide variety of fees is collected for which no licenses are issued. It is not the purpose of this report to go into a detailed discussion of all of these different types of licenses and fees. Agricultural inspection fees, because of the important place they occupy, and because they constitute a particular type of activity by one major department of the government, have been given extended treatment. Beverage, retail store, hotel and res-

taurant, insurance, and railroad and telegraph licenses<sup>6</sup> have been given a more cursory treatment.

**General agricultural inspection fees.**<sup>7</sup>—Sixteen types of fees and closely related revenues are administered by the Florida Department of Agriculture. Collections are credited to the General Inspection Fund, one of the five principal funds employed in the state's system of financial accounting. The Department meets most of its expenses from the General Inspection Fund. Certain activities are financed by other sources. The best example of this is the appropriation from the General Revenue Fund for the support of the Prison Division's activities in supervising the state prisons. While the Legislature makes an appropriation of General Inspection Fund revenue for the Department of Agriculture, the appropriation act specifies that the Budget Commission may release any available General Inspection funds to meet a deficiency in appropriated amounts.

Table 8 sets forth the amounts collected on account of the various inspection fees for selected fiscal years 1946 to 1956, inclusive. Total amounts collected have increased each year from \$2,205,000 in 1946 to \$6,270,000 in 1956, an amount nearly three times the 1946 collections.

TABLE 8.—REVENUE OF GENERAL INSPECTION FUND OF FLORIDA, SELECTED YEARS AND TOTAL FOR PERIOD: 1946-1956  
(Thousands of dollars)

| Source                     | Total<br>1946-1956 | 1946           | 1949           | 1952           | 1955           | 1956           |
|----------------------------|--------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total</b>               | <b>\$45,391</b>    | <b>\$2,205</b> | <b>\$3,183</b> | <b>\$4,808</b> | <b>\$5,736</b> | <b>\$6,270</b> |
| <b>Inspection fees:</b>    |                    |                |                |                |                |                |
| Citrus                     | 14,628             | 746            | 868            | 1,689          | 1,838          | 1,978          |
| Gasoline and oil           | 12,918             | 707            | 914            | 1,254          | 1,601          | 1,784          |
| Federal-state              | 5,916              | .....          | 555            | 639            | 895            | 1,015          |
| Fertilizer                 | 3,412              | 259            | 227            | 338            | 355            | 384            |
| Egg and poultry            | 1,776              | 40             | 116            | 192            | 211            | 300            |
| Feed                       | 2,581              | 224            | 210            | 266            | 257            | 253            |
| Lime and phosphate         | 342                | 9              | 12             | 42             | 50             | 62             |
| Seed                       | 333                | 12             | 24             | 41             | 39             | 41             |
| Insecticide                | 234                | 13             | 18             | 19             | 34             | 36             |
| Frozen desserts            | 80                 | 5              | 7              | 6              | 8              | 9              |
| <b>Licenses and other:</b> |                    |                |                |                |                |                |
| Farmers' markets, use of   | 2,799              | 151            | 205            | 289            | 361            | 370            |
| Produce dealers            | 123                | 7              | 8              | 11             | 16             | 17             |
| Citrus dealers             | 128                | 11             | 9              | 13             | 15             | 14             |
| Land and field rates       | 27                 | 2              | 3              | 3              | 3              | 4              |
| Sale of statistics         | 30                 | 2              | 2              | 3              | 3              | 3              |
| Recording marks and brands | 64                 | 17             | 5              | 3              | .....          | .....          |

Source: Comptroller, *Annual Reports*, 1946-1955; Commissioner of Agriculture, *Biennial Reports*, 1946-1956.

<sup>6</sup>Railroad and telegraph licenses have been discussed under the topic "Public Utility Licenses." See pp. 7-9.

<sup>7</sup>The following analysis of general agricultural inspection fees was prepared by Dr. LeRoy Qualls of the Economics Department, University of Florida.

Two types of fees loom far larger than the others, representing in combination more than 60 per cent of the total collections for the 11-year period. In all except three years (1947 to 1949) citrus inspection fees have somewhat exceeded gasoline and oil inspection fees. Each of these amounted to slightly less than \$2,000,000 during the fiscal year 1956. At recent rates of growth, they will probably exceed that mark within two years. When one adds to the two inspection fees mentioned above the next five largest items, the seven principal types represent more than 94 per cent of the total general inspection fees collected during the period. These seven most lucrative sources of fees are as follows:

| Source                      | Per Cent of Total |
|-----------------------------|-------------------|
| Citrus inspection           | 32%               |
| Gasoline and oil inspection | 28                |
| Federal-state inspection    | 13                |
| Fertilizer inspection       | 7                 |
| Farmers' market fees        | 6                 |
| Feed inspection             | 5                 |
| Egg and poultry inspection  | 3                 |
|                             | —                 |
| Seven-source total          | 94                |

While they are significant administratively, the remaining nine types of fees do not represent very large sums of revenue. Recording of marks and brands (cattle) brought total fees of \$383 into the treasury during 1956. Yet the service is significant to the cattle industry. Licensing of citrus dealers yielded only \$13,740 in 1956. Through that procedure the Agriculture Department, in conjunction with the Citrus Commission, enforces the various laws regulating the quality of citrus products marketed, which are known as the Florida Citrus Code. Not one of these nine types of fees has produced \$400,000 over the 11-year period, and none has accounted for as much as 1 per cent of total inspection fee collections.

In all but two instances a definite rate is established by the statute for general inspection fees. In the case of federal-state inspection fees (car lot shipments of fruit and vegetables), the statute simply states that the shipper shall pay the costs of the inspection. Again, in the case of farmers' market fees, the Department is directed to make such changes as will cover the costs of operation and maintenance. No statutory mention is made of charges to amortize construction costs.

The schedule of rates is generally expressed in very small figures (in "pennies" literally in many cases). But for several of these fees, volume is highly significant. Inspection of gasoline and kerosene at one-eighth cent per gallon yielded total fees in 1956 of \$1,784,020.34. Another outstanding example of the effect of volume in combination with low rates is the fact that fertilizer inspection, at 25 cents per ton, produced \$383,706 in 1956. One exception to the generally prevailing low rates of these fees ap-



pears in connection with seed inspection fees. In this case, rather than a stated amount per pound or bag of seeds inspected, the fee is set up as an annual license based on the dollar volume of annual sales. For the largest seed dealer, with annual sales over \$500,000, the license is \$500. The total seed inspection fees (which might better be called seed dealers' licenses) amounted in 1956 only to \$41,221. Not many seed dealers are in this top bracket of sales volume.

More significant for many purposes than the amount collected for each inspection fee is a comparison of collections with costs of performing the inspection. In some instances, the law is very specific in requiring that costs be met from the fee collections, and in others the intent of the Legislature is doubtful.

American governments commonly accept the theory that such special services as these inspections (and some other special benefits conferred on specific individuals or groups in distinction from the general public) should be financed by those who receive the special service. A somewhat different aspect of this theory is the question whether the payments made should exceed the costs of the services. On the theory of the state recovering the *cost of services rendered*, the costs and receipts should balance. Under a slightly different version of the general notion of benefit justifying governmental revenues, the state should recover the *value of the service* rendered.

On this latter basis, costs and receipts would not necessarily balance; in fact services of great value might be rendered at small cost to the state. This might be compared in some ways with the fortunately situated business firm that furnishes a highly valuable product to customers at low cost, thus making profits for itself. The function of government, however, is not to make a profit, but rather to serve the general public, conferring general benefit on all citizens.

**Excess of revenue or expenditure.**—To follow out the preceding questions—whether fees should be considered as justified on the basis of cost of services rendered or on the basis of value of services rendered—further examination of the General Inspection fees is presented in Table 9. Here are presented for comparison the total collections over the 11 years 1946 to 1956, inclusive, for each of the 16 types of fees, together with the reported expenditure (costs incurred) for each type. The amounts reported as expenditure for the years 1946 to 1956, inclusive, have been obtained from reports of the Department of Agriculture, except for the year 1954, for which cost allocations were unavailable. The costs incurred in that year by the Supervising Inspection Division of the Department of Agriculture have been allocated on the basis of the average relationship of 1953 and 1955 combined. No claim is made that the total expenditure figure for each type of fee is completely accurate in the cost accounting sense. The Department incurs costs that are similar to overhead costs in a business enterprise.

TABLE 9.—COMPARISON OF GENERAL INSPECTION FEES AND EXPENDITURES FOR SELECTED SERVICES OF THE STATE DEPARTMENT OF AGRICULTURE: 1946-1956, INCLUSIVE  
(Excludes transactions, such as fiscal aid, not enumerated)

| Service                                   | Revenue      | Expenditure  | Excess of Revenue | Excess of Expenditure |
|-------------------------------------------|--------------|--------------|-------------------|-----------------------|
| Total                                     | \$45,391,338 | \$40,977,890 | \$15,942,289      | \$11,528,841          |
| Citrus inspection                         | 14,627,818   | 13,681,401   | 946,417           |                       |
| Egg and poultry inspection                | 1,776,049    | 1,139,377    | 636,672           |                       |
| Frozen desserts inspection                | 79,856       | 71,501       | 8,355             |                       |
| Gasoline and oil inspection               | 12,917,700   | 3,430,201    | 9,487,499         |                       |
| Feed inspection                           | 2,581,314    | 831,885      | 1,749,429         |                       |
| Seed inspection                           | 332,713      | 490,735      |                   | 158,022               |
| Fertilizer, lime and phosphate inspection | 3,754,245    | 1,525,535    | 2,228,710         |                       |
| Insecticide inspection                    | 234,290      | 226,396      | 7,894             |                       |
| Marks and brands recordings               | 63,940       | 153,332      |                   | 89,392                |
| Citrus dealers' licenses                  | 128,297      | 109,618      | 18,679            |                       |
| Federal-state inspection                  | 5,916,129    | 5,237,165    | 678,964           |                       |
| State farmers' market fees                | 2,799,317    | 3,294,763    |                   | 495,446               |
| Produce dealers' licenses (1)             | 122,682      |              | 122,682           |                       |
| Land and field note fees (1)              | 27,347       |              | 27,347            |                       |
| Statistics' sales (1)                     | 29,641       |              | 29,641            |                       |
| Administrative and supervisory (2)        |              | 8,460,849    |                   | 8,460,849             |
| Capital outlay (3)                        |              | 2,325,132    |                   | 2,325,132             |

Source: Commissioner of Agriculture, Biennial Reports, 1946-1956. Comptroller, Annual Reports, 1946-1956.

(1) Expenditures not segregated for this function. Included in administrative and supervisory.

(2) Covers expenditures as follows: Commissioner's office, \$1,786,418; Bureau of Immigration, \$1,664,672; Auditor's office, \$425,286; State Marketing Bureau, \$1,-349,331; weights and measures inspection, \$1,041,775; Food, drug, and cosmetic inspection, \$833,321; and chemist, \$1,360,046.

(3) Covers expenditures for Mayo Building, \$725,060; Livestock pavilions, \$908,-499; and state farmers' markets, \$691,573.

Leaving out any question of allocating general overhead costs, Table 9 also shows, in the two columns headed "Excess of Revenue" and "Excess of Expenditure," the differences between 11-year collections and 11-year expenditures. In no case, did the reported revenue and expenditure balance. In three instances, expenditure figures are unavailable. Three instances occurred of "Excess Expenditure," that is, the Department of Agriculture spent more on those inspection services than it took in during the period 1946 to 1956. In the remaining nine instances, excess revenues were shown.

The smallest differences in amount appeared for insecticide inspection fees and frozen dessert inspection fees, each amounting approximately to \$8,000 over the 11 years. However, the difference was as large as the entire year's collection in 1955 for the frozen desserts inspection fee. In the case of the insecticide inspection fee, the difference between revenue and cost amounted to less than one-fourth of a recent year's collection.

The outstanding example of failure to balance revenue and expenditure for a particular inspection service and fee is that of the gasoline and oil inspection. "Excess revenue" for the 11-year period amounted to \$9,487,498. This was more than one-half of

all the "Excess Revenue" shown in Table 9. Section 525.12 of the Florida Statutes, enacted in 1919, provides that on January 1 of each year the balance remaining in the "gasoline inspection fund" shall be transferred to the "state highway fund." The record shows no such transfer since 1927. In the intervening years since 1927, excess gasoline inspection funds have been used to finance other activities than gasoline inspection and highways. The governing law is ambiguous in that the law is not clear whether the various inspection fees are to be lumped together or considered separately as to payment of inspection costs. They appear, in fact, to have been lumped together. In addition, other functions have been added, sometimes with no financial support provided other than a general directive from the Legislature to meet the costs from monies in the General Inspection Fund.

A case could be made that the expenses of the Commissioner's Office, those of the Mayo Building, and those of the Auditor's Office are general overhead costs of providing inspection services. A somewhat weaker case may be made for considering the expenses of weights and measures inspection and food and drug inspection, including State Chemist expenses, as general overhead. Their activities are at least joint in that they apply to more than a single type of inspection. A still weaker case exists for considering as general overhead cost of inspection the construction of state farmers' markets and livestock pavilions and activities of the State Marketing Bureau and of the Bureau of Immigration. Yet all these have been financed in past years from the excess inspection fees. Reference to Table 9 indicates that these costs have been financed by the gasoline and oil inspection fees, fertilizer inspection fees, and feed inspection fees.

Turning to those fees shown by Table 9 to be overspent, as indicated by "Excess Expenditure" for the period 1946 to 1956, inclusive, three types of inspections have incurred costs that outran fees collected. The largest amount of excess involved was nearly one-half million dollars of expenses by the Agricultural Marketing Board in excess of the fees secured from operation of the state farmers' markets. Costs of seed inspection have exceeded the fees collected by about one-third, amounting to \$158,022 in the 11-year period. Finally, marks and brands recording in this period involved expenditure more than double the amount of fees collected. This has produced a "deficit" for the period amounting to \$89,392. In this period fees for this service have declined to less than \$500 per annum for the last three years, but expenditure was still over \$5,000 for the year 1956. Accordingly, the three major producers of "Excess Revenue" for the General Inspection Fund can also be said to be subsidizing these latter three types of inspection services as well as the other departmental activities enumerated above.

**Suggestions regarding agricultural fees.**—The Department of Agriculture administers 16 types of fees or closely related types of revenue in connection with enforcement activities. Revenue



from all these fees is credited to the General Inspection Fund, from which nearly all expenditure of the Department is met.

Citrus inspection fees and gasoline and oil inspection fees have brought in more than 60 per cent of all fee collections by the Department in the period 1946 to 1956, inclusive, each now amounting to slightly under \$2,000,000 annually. When the next five largest producers of fee income are added to the two named, more than 90 per cent of the revenues are accounted for. The remaining nine types of fees each have amounted to 1 per cent or less of total collections for the 11-year period.

Because the generally accepted theory regarding fees is that the benefit conferred upon the fee payer justifies the fee, whose amount is set in accordance with either (a) the cost of the service, or (b) the value of the service, the relation between collections and expenditure during the period 1946 to 1956 has been examined. Three types of fees appear to have yielded substantial excess revenue over cost. On the other hand, substantial service costs were incurred for other types of inspections for which no fees, or insufficient amounts, were provided. General departmental overhead costs may not have been charged to specific inspection services. Nevertheless, fees collected from gasoline dealers, the fertilizer industry, and feed dealers have been used to finance the Bureau of Immigration, State Marketing Bureau, weights and measures inspection, food and drug inspection, livestock pavilion construction, and farmers' market construction.

The following suggestions are offered for consideration:

1. Investigation of the equity involved in existing methods of financing the activities of the Department of Agriculture should be undertaken.

2. Consideration should be given to the possibility of financing the Bureau of Immigration and possibly weights and measures inspection and food and drug inspection from the General Revenue Fund. This suggestion is based on the belief that the benefits conferred by these activities are too widely dispersed among the population to make it equitable to collect the necessary fees from beneficiaries of the services.

3. Construction of livestock pavilions and farmers' markets is more appropriately charged to the users of such markets. They might be financed by state loans or by issue of revenue certificates, but in either case the costs should be amortized by fees collected from users of the facilities.

4. Further study should be given to the possibility that certain types of fees are not producing sufficient revenues to pay the costs of the services. This applies especially to state farmers' market fees, seed dealers licenses, and the recording of marks and brands fees.

5. The probability that certain types of fees are too high should be examined, especially with reference to gasoline and oil

inspection, fertilizer, lime and phosphate inspection, and feed inspection.

6. In attempting to present more clearly the equity aspect of the various inspection fees, more complete allocations of costs incurred by the Department of Agriculture would be useful. To that end, the Department should show allocations of "overhead" costs on a reasonable basis in reports to the Legislature and to the public.

### **Miscellaneous Classes of Fees and Licenses**

**Beverage Department licenses.**—The Florida State Beverage Department, which is charged with the administration of the state's beverage laws, issues licenses for the following general categories of those who manufacture or handle alcoholic beverages: (1) beer licenses, (2) beer and wine licenses, (3) all beverages, sealed containers, (4) all beverages, consumption on premises, (5) miscellaneous vendors licenses, (6) manufacturers licenses, and (7) distributors licenses. The vendors licenses for both package stores and consumption on the premises of all beverages vary from \$300 to \$1,500 depending upon the population of the county in which the outlet is located. In 1955, all beverage licenses brought in to the state \$1,469,775, or 9.67 per cent of the total license revenue collected in the state from all licenses by all levels of government. A roughly similar amount was collected by the counties and an undetermined amount was collected by the municipalities. Beverage licenses accounted for over 20 per cent of the total license collections in the state.

The county license tax paid by the licensee is the same as that paid to the state (F.S. 561.26). Each incorporated city or town in the state may levy and collect a license tax on each manufacturer, distributor, and vendor not to exceed 50 per cent of the state and county license tax. Where a city license tax is collected, the licensee is entitled to a reduction in his state and county license tax equal to the amount of the city license tax paid (F.S. 561.36).

The county and state license taxes are collected by the county tax collector. As is the case with the occupational licenses, the county judge must sign the licenses and remit a monthly report to the Director of the Beverage Department. Little reason exists for continuing the use of the county judge in the process of issuing licenses and collecting license taxes.

Any suggested changes in alcoholic beverage licenses must be tied in with the discussion of changes in the state's overall licensing system. Since the beverage license is essentially for control, no suggestion is advanced that the state withdraw from this field. Licenses for the control of traffic in alcoholic beverages must be continued and a fee must be collected for them. If the state were to abandon license fees as a source of revenue, as distinct from regulation, a question might be raised as to the level of beverage license fees since the fees are considerably in excess of the cost of license administration.

A revision of the state's licensing system with conversion to one of the gross receipts or value-added bases would call for a reexamination of beverage license fees. A license system on a gross receipts base would replace the present beverage license system. A gross receipts tax or a value-added tax applied to the handling and sale of alcoholic beverages, along with other activities, should call for a reduction of beverage licenses to a low flat rate to help defray at least part of the cost of administration and to aid with the administration of the licenses. For any increase in revenue from beverage licenses, the state should consider fees based upon volume handled rather than simply increase the present crude rates.

**Retail store licenses.**—The retail store license, which is administered by a branch of the Comptroller's office, is a flat \$10 a year regardless of the size or nature of the store's activities (F.S. 204.02). Prior to 1953, the chain store tax law levied a tax on retail stores in accordance with the number of stores in the chain in the state with \$400 per store as the top tax. The flat \$10 tax is a remnant of the chain store tax left over from the revision of 1953.

No justification remains for this type of tax on retail outlets. As a flat-rate license, the tax is open to all of the criticism leveled at the flat-rate license tax rate. This license is oppressive on the very small operator, while it has nothing but a nuisance impact upon the larger retailer. The tax has no connection either with ability to pay or with any possible benefit which the retailer may receive from the state.

The retail store license tax is part of the occupational license picture, although separately collected. The observations made earlier on possible changes in the occupational license field apply here and need not be repeated. In the absence of changes in the entire license system, consideration should be given to a revision of the inventory tax and flat-rate-license tax combination. A low rate, probably one mill, tax on gross receipts of all retailers—with a minimum fee of \$10 or else an exemption of the first \$5,000 of receipts—seems feasible.

**Hotel and Restaurant Commission.**—The Hotel and Restaurant Commission administers licenses under which both restaurants and hotels must operate. These are basically licenses for control purposes, since the Commission must inspect the premises to ascertain that the owners are conforming to sanitary and other legal rules.

The license rates for hotels are low, with a gesture in the direction of a capacity base. The law (F.S. 509.251-1) establishes the following schedules of licenses:

| Number of Rooms | Rate    | Number of Rooms | Rate    |
|-----------------|---------|-----------------|---------|
| 1-4             | \$ 2.40 | 100-199         | \$30.00 |
| 5-9             | 3.00    | 200-299         | 42.00   |
| 10-19           | 6.00    | 300-399         | 51.00   |
| 20-29           | 9.00    | 400-499         | 60.00   |
| 30-49           | 15.00   | 500 and over    | 75.00   |
| 50-99           | 18.00   |                 |         |



On such a base, the rate schedule is somewhat regressive, the license tax per room decreasing as the number of rooms increases. An establishment with four rooms would pay 60 cents per room. This decreases irregularly to the point where a hotel with 500 rooms pays 15 cents per room. In addition, an occupational license of 50 cents a room is collected.

Restaurant license fees also take the same type of schedule with specific rates as follows (F.S. 509.251-3):

| Number of Seats | Rate    |
|-----------------|---------|
| 1-29            | \$ 6.00 |
| 30-74           | 9.00    |
| 75-149          | 12.00   |
| 150-249         | 15.00   |
| 250-349         | 18.00   |
| 350-500         | 21.00   |
| 500 and over    | 24.00   |

This rate schedule is also regressive on individual seating capacity. The rate falls from 50 cents per place for a restaurant seating 12 people to less than five cents per place for restaurants with 500 or more. These rates are not high enough, however, to constitute any significant hardship on anyone. They are designed not for revenue but to help defray the cost of administration and inspection.

This license for control purposes, rather than revenue, should be continued. Even though the state might move to a gross receipts base, a license fee to aid with the cost of administering licenses should be continued. On the other hand, should the state withdraw from the licensing field in general, the state should not withdraw from this one.

In addition to the license fee collected by the Hotel and Restaurant Commission, cafes, restaurants, and other eating places pay to the Comptroller, an occupational license which is also based upon the capacity of the eating place. This varies from \$5 for those seating less than 15 persons to \$50 for those seating over 150 persons. A combination of the two licenses, in the absence of a revision of the entire licensing system, is desirable.

**Insurance licenses.**<sup>8</sup>—The Insurance Commission, of which the Treasurer of the State of Florida is Commissioner, levies licenses upon insurance companies operating in the state as well as licenses upon the various men who work in the insurance business. A flat company license of \$200 for each company operating within the state, regardless of the nature or amount of its business, is collected. For individuals, the adjuster's license is \$10, the non-admitted carrier's insurance agent's license is \$10, and the license for agents and solicitors is \$6 a year. No additional state occupational license is required of these individuals.

<sup>8</sup>See Florida Citizens Tax Council staff report, *Documentary Stamp Taxation in Florida and Insurance Taxation in Florida*, by Paul J. Piccard, (1957).

In addition to the licenses required of insurance companies and insurance adjusters, solicitors and agents, a variety of filing, examination, and registration fees are collected, ranging in amount from the \$3 fraternal agent's qualification fee to the \$10 examination and filing fees. These fees together brought in approximately \$78,000 to the state in 1956. The fees seem to be more in the nature of control devices to help keep track of what is going on in the insurance field, while the licenses are basically for revenue purposes.

Any revision of the licensing system in Florida should certainly take into consideration the possibility of revision in the licensing of insurance companies and possibly of insurance agents and solicitors as well. The flat rate license of \$200 on insurance companies, regardless of size, nature, or amount of business, is subject to the same criticism as any flat rate license which applies to a base containing wide variations in both size and nature of activity. A revision of the insurance licensing system should give consideration to adjusting licenses on both type and amount of business in order to increase the equity as among businesses.

**Hunting and fishing licenses.**—The Game and Fresh Water Fish Commission is charged with supervising the use and conservation of Florida's game and fish. In maintaining inspection and control over the taking and use of game birds and fish, the Commission uses an extensive system of licenses. With minor exceptions, the huntsman or fisherman must have on his person the appropriate license while hunting or fishing or he will be subject to penalties.

The Game and Fresh Water Fish Commission has eight different classes of hunting license varying in cost from a resident county game license for \$2 to an alien hunting license for \$50; five classes of trapping licenses are issued varying from the resident county trapping license for \$3.25 to the non-resident state trapping license for \$100.50; three licenses are issued for dealers in alligator skins and green or dried furs ranging from \$5 to \$100; and two licenses, each of \$5, are issued for operating a game farm or for exhibiting poisonous snakes. Four licenses are issued for fresh water fishing, varying from \$1.25 to \$10.50; four for fresh water fish dealers, varying from \$5 to \$500; and licenses are issued for boats engaged in fresh water fishing, depending upon the size of the boat.

Income from all of these licenses combined amounted to \$1,538,829 in 1956. The most important items were the hunting and fishing licenses. All series of hunting licenses brought in \$581,771, while all series of fishing licenses that year produced \$819,850. Miscellaneous licenses yielded about \$137,000. Revenue is particularly important since the Commission does not operate on a state budget. This is one agency whose only revenue—and hence the funds from which all of its activities must be financed—is the fees which it collects.

The major licenses issued by the Game and Fresh Water Fish Commission differ markedly from most of the other licenses which have been discussed. Although privilege licenses, they lack measurable private income connected with exercising the privilege. Hence, no base exists upon which the value of the license can be measured. Determination of the level at which the price of the license should be established is a choice in balancing the possibilities of extra revenue, which higher license fees might bring, against the fact that the higher the license, the greater will be efforts to evade payment. Thus, the administrative effort and cost required will be higher.

### **Should Florida Have a Business Tax?**

A question which should be considered before deciding what to do with state business and occupational licenses is whether the state should levy a tax on business as such. The state does not at the present time, of course, levy a corporation income tax, which is one of the main forms of business tax. The state does levy the license fees, which have been discussed earlier in this report, and capital stock taxes and franchise taxes on corporations. Insurance companies, banks, and public utilities pay special taxes which would be classified as business taxes. Nothing on the Florida tax books, however, approximates a general business tax.

**Nature of a business tax.**—A business tax is a tax upon business, not upon the businessman who operates the business. Modern business is no longer the personal venture of the individual producer, inseparable from his personality. Modern business often is a complex organization, a group venture having a collective personality. Modern enterprise is an aggregation of entrepreneurs, lenders of capital, managers, and employees; a business tax falls upon all of them, not on the entrepreneurs alone. Modern business enterprise does have productive capacity which is impersonal in character and which must not be confused with the productive capacities of the individuals participating in the functioning of the business.

The productive capacity of a business is more than the combined productive powers of the individuals who work for a firm. Productive capacity includes many other factors—mechanical, governmental, natural, social, and fortuitous—which cannot be discussed here. Taxes on business enterprise fall very largely upon these collective and impersonal productive powers, although not necessarily in proportion to their amount. They have an impact upon all of the individuals involved, but they are not taxes upon those individuals. Some of them are partially shifted to the consumers, but again they are not consumer taxes in themselves.

**Justification of business taxes.**—Business taxes are justified on one or more of several grounds.<sup>9</sup> Three pertinent factors often

<sup>9</sup>Paul Studenski, "Toward a Theory of Business Taxation," *The Journal of Political Economy*, October, 1940, p. 624.



employed relate to costs: (1) the cost of special services rendered by the state to certain business enterprises, (2) the cost of general services which the state provides for all business enterprises, and (3) the social costs or losses resulting from certain types of business operations.

Three additional justifications for business taxes may be drawn from the relationship between the business and government. Specifically, business taxation is warranted because of (4) the special privileges conferred by the state on certain types of enterprises, and (5) the cooperation between the state and a business as "partners" in accomplishing a given objective. Recognition by the state of businesses as separate entities points to another basis for business taxation, that is, (6) the impersonal taxpaying capacity possessed by business enterprise.

Finally, business taxes may be justified on one or more of three grounds concerning the position of businesses within the community and state. These last three bases are: (7) the responsibility of business to contribute to the general welfare, (8) social expediency, or the convenience of taxing business as a ready source of public revenue, and (9) the possibility open to the state, through a taxation policy, to exercise certain social control over certain types of business activity.

These overlapping justifications all lead to business taxation, but they do not by themselves determine which types of taxes should be used. The actual tax or taxes that will be levied will depend on constitutional, economic, political, and other factors. The types of taxes justified by each of the foregoing nine bases are summarized in Table 10.

TABLE 10.—SCOPE AND BASIS OF BUSINESS TAXES ARISING FROM THE VARIOUS THEORIES OF BUSINESS TAXATION

| Theory of Business Taxation                     | Scope of Business Taxation Justified by the Theory | Basis of Imposition Justified by the Theory                                                               |
|-------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| 1. Cost of special service                      | Restricted                                         | Cost of specific service or flat charge                                                                   |
| 2. Cost of general service rendered to business | General                                            | Capital assets, gross earnings, or "value-added" at proportional rates                                    |
| 3. Social costs of business                     | Restricted                                         | Varying with type and extent of the social costs                                                          |
| 4. Privilege                                    | Restricted                                         | Capital assets or net income at proportional rates                                                        |
| 5. State partnership                            | General                                            | Net income (at proportional rates)                                                                        |
| 6. Impersonal ability                           | Restricted                                         | Net income, either at proportional rates or at rates graduated according to rate of profit                |
| 7. General welfare                              | General                                            | Manufacturers', wholesalers' or retailers' sales; general turnover or "value-added"—at proportional rates |
| 8. Social expediency                            | General                                            | Almost any of the foregoing bases depending on conditions of time                                         |
| 9. Social control                               | Mostly restricted                                  | Varying with type of control to be exercised                                                              |

Source: Studenski, *op. cit.*, p. 641.

The first type of taxation growing out of Table 10 is the corporation net income tax. In Florida, of course, this tax must be ruled out because of constitutional inhibitions. In consequence, attention is next directed to taxation of gross receipts or "value-added" as the *general* business tax, since the purpose is not to add more *restricted* business taxes to Florida's tax system.

### Gross Receipts Tax

A gross receipts tax may be called by almost any name, but the name does not change the nature of the tax. This tax is in the nature of an excise measured by the volume of business done. In Washington State such a tax is called the "business and occupational tax." The general gross receipts tax is used in six states—the major gross receipts tax states are Washington, West Virginia, and Indiana; the minor gross income tax states are Arizona, New Mexico, and Mississippi.

**Nature of a gross receipts tax.**—A gross receipts tax, with a flat rate of taxation applying to all types of transactions and businesses, has certain inherent inequities or weaknesses from the standpoint of tax justice. The higher the rate of tax the more pronounced do these inequities become. The two major criticisms are that the *effective* rates of taxation vary widely among businesses in different circumstances and that the tax is pyramided.

The effective rates of taxation under a gross receipts tax vary widely among businesses when considered in relation to profit or net return. Those businesses which operate at a low price markup on a large volume of turnover—and thus at a low rate of net return in relation to gross income—will suffer severely under a high gross receipts tax. The business, on the other hand, which operates at a low rate of turnover with a high rate of markup—and thus a high rate of net return in relation to its gross receipts—will not suffer as severely under a gross receipts tax.

An illustration of the extremes to which this inequity can go among different businesses is Washington's present gross receipts tax on services of 0.8 per cent. A business operating with a net return of 1 per cent of gross receipts would pay tax equal to a net income tax of 80 per cent; a business whose net income is 5 per cent of gross receipts would pay an effective net income tax of 16 per cent; and a business whose net income is 10 per cent of gross receipts would pay an effective rate of 8 per cent. In general, the effective net income tax rate decreases as the per cent that net income is of gross receipts continues to increase.

A second criticism leveled against the gross receipts tax is that the tax is subject to pyramiding. That is, where the merchandise goes through several transactions before reaching the hands of the consumer, a tax is paid at each separate step in the process. The consumer has several different gross receipts taxes included in the price of the product he buys. Moreover, when the price of the merchandise is determined by a percentage markup method, the gross receipts tax payments become part of the cost of the

goods to the handler, and he figures his markup not only on the original cost of the goods but on the tax as well. The same criticism can be made, of course, of a manufacturer's excise tax when the tax is added to the price of the goods as ownership is transferred. An increase in the tax may bring about an increase in the price of goods larger than the increase in the tax.

Another aspect of pyramiding creates inequities in favor of the large integrated concern and against the combination of small firms doing the same business. Four or five small businessmen, dealing among themselves in converting raw materials into finished goods ready for consumption, would have to pay a gross receipts tax upon each transaction. Collectively, these firms would have to pay much more taxes than would one vertically integrated company which carried on all of the steps itself and was not faced with the necessity of transferring ownership of the goods in the production process. Moreover, in a competitive market, the small companies would be forced to absorb the extra taxes themselves since they could not sell their goods at a higher price than the integrated company in the same market. Such a differential might well be enough at times to eliminate the small firms from the industry.

The advantages of the gross receipts tax are that the tax is certain, easily administered, responds to inflationary pressures, and produces large revenues. These are not factors which can readily be dismissed.

**Modifications of the gross receipts tax.**—Modifications in the gross receipts tax should be for the purpose of decreasing the inherent inequities of a flat rate gross receipts tax. As has been pointed out, these inequities exist because gross receipts, being a measure of volume only, cannot be an indication of value. In three general ways equity can be introduced into a gross receipts tax. These are: (1) to approach a net value of the base; (2) to attempt a classification of the base with varying rates for different classifications; and (3) to minimize the inequities by reducing the rates and extending the base.

Several of the states using gross receipts taxes have attempted to classify the base and thus to eliminate some of the inequalities. Table 11 sets forth the rate structures used by the six states employing gross receipts taxes. Of the three states making a major use of the gross receipts tax, Washington levies approximately a flat rate, while West Virginia and Indiana both classify their rates by occupation.

Dr. James W. Martin, Director of the Bureau of Business Research at the University of Kentucky, has devised a system of rates designed to eliminate or reduce the inequalities and inequities among taxpayers under a gross receipts type of tax. Shown in Table 12, the rates are based upon the results of a study in Kentucky shortly after World War II. The plan has the effect of dividing businesses into several classes and taxing each class according to its gross receipts in such a manner that the



TABLE 11. — PERCENTAGE TAX RATES ON GROSS RECEIPTS IN SIX STATES: JANUARY, 1956  
(UTILITY TAXES EXCLUDED)

| Type                                             | Washington | West Virginia     | Indiana           | Arizona           | New Mexico | Mississippi      |
|--------------------------------------------------|------------|-------------------|-------------------|-------------------|------------|------------------|
| <b>GROSS RECEIPTS</b>                            |            |                   |                   |                   |            |                  |
| a. Extracting                                    |            |                   |                   |                   |            |                  |
| Coal.....                                        | 0.4        | 1.235             | 0.25 <sup>1</sup> | 1.0               | 0.625      | 2.0              |
| Limestone, sandstone, timber.....                | 0.4        | 1.8525            | 0.25 <sup>1</sup> | 1.0               | 0.5        | 2.0              |
| Blast furnace slag, sand and gravel.....         | 0.4        | 3.705             | 0.25 <sup>1</sup> | 1.0               | 0.5        | 2.0              |
| Natural gas and oil.....                         | 0.4        | 7.41 <sup>2</sup> | 0.25 <sup>1</sup> | 1.0               | 4.625      | 6.0              |
| Other natural resources.....                     | 0.4        | 2.47              | 0.25 <sup>1</sup> | 1.0               | 0.5        | 2.0              |
| b. Manufacturing.....                            | 0.4        | 0.3705            | 0.25              | .....             | 2.25       | .....            |
| c. Manufacturing wheat into flour.....           | 0.125      | .....             | .....             | .....             | .....      | .....            |
| d. Wholesaling wheat, oats, corn and barley..... | 0.01       | .....             | .....             | 2.25 <sup>3</sup> | .....      | .....            |
| e. Wholesaling functions.....                    | 0.4        | 0.18525           | 0.25              | .....             | 0.125      | 0.125            |
| f. Wholesaling, other.....                       | 0.4        | 0.18525           | 0.25              | .....             | 0.125      | 0.125            |
| g. Retailing.....                                | 0.4        | 0.475             | 0.5               | x                 | x          | x                |
| h. Printing and publishing.....                  | 0.4        | 0.95              | 1.0 <sup>4</sup>  | 1.0               | 0.25       | .....            |
| i. Public road construction.....                 | 0.4        | .....             | .....             | .....             | .....      | .....            |
| j. Services.....                                 |            |                   |                   |                   |            |                  |
| Dry cleaning and laundering.....                 | 0.4        | 0.95              | 0.5               | .....             | 2.0        | 2.0              |
| Display advertising.....                         | 0.8        | 0.95              | 0.25              | .....             | 2.0        | 2.0              |
| Contractors.....                                 | 0.8        | 1.9               | 0.5 <sup>5</sup>  | 1.0               | 2.0        | 1.5              |
| Amusements.....                                  | 0.8        | 0.6175            | 1.0               | 2.0               | 2.0        | .....            |
| Other services.....                              | 0.8        | 0.95              | 1.0               | 2.0               | 2.0        | 2.0              |
| <b>RETAIL SALES TAX</b>                          |            |                   |                   |                   |            |                  |
| Spirits, wine, or strong beer                    |            |                   |                   |                   |            |                  |
| in original container.....                       | 10.0       | 2.0               | .....             | 2.0               | 2.0        | 5.0 <sup>6</sup> |
| Other retail sales.....                          | 3.33       | 2.0               | .....             | 2.0               | 2.0        | 3.0              |
| Use tax.....                                     | 3.33       | 2.0               | .....             | 2.0               | 2.0        | 3.0              |

x Although included in gross receipts tax, shown separately under retail sales tax to facilitate comparison.

<sup>1</sup> Assuming that the products are usually sold for resale. If sold to users, the rate is 0.5 per cent. Income from royalties, or equivalent, are taxable at 1 per cent.

<sup>2</sup> Exemption of \$5,000 per taxpayer on natural gas. Oil is taxed at 3.705 per cent.

<sup>3</sup> The tax applies only to wholesaling of poultry and stock feedstuffs and wholesale meat packaging.

<sup>4</sup> Except that the rate is 0.5 per cent for retail sales, and 0.25 per cent for wholesale sales and display advertising.

<sup>5</sup> Where only labor is contracted for and no goods are furnished, the rate is 1 per cent.

<sup>6</sup> Whiskey only.

effective rate for each is a specified percentage of the average net income produced by such business. Both higher and lower rate possibilities are given. The important aspect of the table is not the size of the rate given for any particular activity, but the relationships among rates for different businesses. The types of business having the highest rates are the ones having the highest ratio of net profits to gross receipts.

Dr. Martin says of the suggested rates:<sup>10</sup>

The rates shown in the table are approximately correct for any state. They are subject to fluctuations both from year to year and from place to place; but these indicated relative rates have been verified in several different ways. (1) They have been tested for conformity in specific cities and in specific size classes of cities within Kentucky for the same year. (2) They have been compared with available corporate statistics; and although there are some variations, the differences are not sufficient to introduce significant crudity.

TABLE 12.—EXAMPLES OF APPROXIMATE BUSINESS LICENSE RATES BASED ON AVERAGE NET INCOME BY CLASSES OF BUSINESS

| Class of Business                                                          | Alternative Rate Possibilities |            |
|----------------------------------------------------------------------------|--------------------------------|------------|
|                                                                            | Higher Rate                    | Lower Rate |
| Public utilities, except transportation .....                              | 0.9%                           | 0.3%       |
| Transportation .....                                                       | 0.3                            | 0.1        |
| Contract construction .....                                                | 0.4                            | 0.1        |
| Finance, insurance and real estate .....                                   | 1.3                            | 0.5        |
| Manufacturing and mining .....                                             | 0.4                            | 0.2        |
| Retailers, except groceries, feed, grain, hay, seed .....                  | 0.3                            | 0.1        |
| Grocery, feed, grain, hay, seed, and similar retailers.....                | 0.1                            | 0.05       |
| Professional service, including law, medicine, dentistry, accounting ..... | 2.0                            | 0.7        |
| Automobile repair (no vehicle sales) .....                                 | 0.3                            | 0.1        |
| Other services .....                                                       | 0.6                            | 0.2        |
| Wholesale trade .....                                                      | 0.2                            | 0.1        |

Source: Adapted from James W. Martin and Mary Evins, "Devising a Rate Structure for the City Business Tax," *National Tax Journal*, III, No. 1 (March, 1950), 64 ff.

The introduction of such a scheme, of course, is not a perfect answer to the inequities of the gross receipts tax since any such classification device complicates the statute and the tax administration. A further difficulty arises when a business carries on combined activities which cut across two or more tax rates.

As an alternative to the use of net profit in determining the tax rate applicable to specific types of business, gross profit may be used in the same manner. This will give also a system of relative rates designed to eliminate the inequities between different types of business because of different rates of return related to volume of transactions.

**Yield of gross receipts tax.**—The yield of a tax depends, of

<sup>10</sup>James W. Martin, "Devising and Administering Municipal Gross Receipts Business Licenses," *Municipal Finance*, May 1955, p. 136.

course, upon a number of factors. These include the obvious factors of breadth of base, level of rates, and excellence of administration. Another important factor, which may be equally obvious, is the factor of deductions or exclusions of income.

The following estimates of possible revenue from a Florida gross receipts tax are based on the Washington experience. Gross receipts less than \$600 for the bimonthly reporting period are exempt, as are agricultural income, governmental income payments, and dividends, interest, and rent. On this basis, and with the tax rates shown in Table 11, the Washington tax produced \$46,316,155 in 1956.

Personal income of residents in 1955 was \$3,143 million in Washington and \$3,402 million in Florida. Washington's tax ratio as related to state personal income—found by dividing the tax revenue of \$46,316,155 by personal income of \$3,143 million—came to 1.474 per cent. Washington's average tax rate on gross receipts was computed to be approximately 4.7 mills on gross receipts. At this rate, an equivalent tax in Florida would produce approximately \$50,145,480 on the basis of 1956 income. This is a yield of \$10,669,251 per mill of tax on gross receipts that excludes, as in the case of Washington, government income and transfer payments, agricultural income, and property income. The yield from a 1 per cent gross receipts tax, then would amount to \$106,692,510 at 1956 income levels.

Since future revenue from such a tax is an important consideration, the tax yield for 1957-58 and for 1958-59 has been estimated on the basis of projections of future personal income of residents. The revenues would be as follows:

| Tax Rate          | Yield in Future Years |               |
|-------------------|-----------------------|---------------|
|                   | 1957-58               | 1958-59       |
| Per 1 mill        | \$ 12,893,790         | \$ 14,174,100 |
| ½ of 1% (5 mills) | 64,468,950            | 70,870,500    |
| 1% (10 mills)     | 128,937,900           | 141,741,000   |

Perhaps the most realistic estimate is for the yield from a tax of one-half per cent; this rate is sufficiently low to avoid the inequities of a high-rate tax, and the rate is sufficiently high to produce large revenue. The projection on which these estimates are based assumes a continued rate of growth at the same average rate as took place from 1948 to 1955. This is an optimistic projection, but is somewhat more conservative than those used by the Budget Director in projecting revenue from various state taxes for the next two years.

**Administration of gross receipts tax.**—A gross receipts tax would necessarily be administered at the state level since county or municipal officials are not in a position to administer a broad business tax. If the gross receipts tax replaces only the state and county licenses, the rate would be low at possibly one or two mills with the revenue divided between the state and counties. The state should retain only sufficient revenue to pay the cost of administration and possibly to replace the loss due to the withdrawal from the license field, the balance going to the



counties. Administration of the gross receipts tax could be combined with the administration of the sales tax in order to make possible the double use of all personnel and records.

In case the municipalities withdraw from the license field also and make use of the gross receipts tax for municipal revenue purposes, the municipalities should then be permitted to enact one of two supplementary gross receipts tax rates, a high one or a low one. The high and the low rates might range from two to four mills. The state would collect the additional tax in the municipalities which levied the supplementary rates, returning the revenue to the municipalities.

### **Value-added Tax**

A value-added tax is an attempt to levy a tax only on the increase in the value of goods as they go through the hands of the manufacturer or other firm engaged in commercial activity. This type of tax was enacted in Michigan in 1953 on a temporary basis and was made permanent in 1955. The value-added tax is an established part of the Michigan tax system, and is used instead of a corporate income tax. This is the only state in which the tax has been used in the United States, although the tax has been subject to intensive study for a considerable period of years.

**Nature of the value-added tax.**—The value-added tax, in general, operates to prevent pyramiding by allowing a deduction from gross receipts for all purchased items except labor. This is done on the theory that the seller of all these items has already paid the tax on that product. The cost of labor is not deductible. Thus the value-added tax is not subject to the criticism of the gross receipts tax that it is subject to pyramiding.

The value-added tax is not to be confused with either a gross receipts or a net income tax. The base of the value-added tax is considerably narrower than the gross receipts tax base because of the several deductions which are allowed against gross receipts in determining value-added. On the other hand, the value-added base is considerably wider than the net income tax since wages and other items are not deductible. Essentially, the base of the value-added tax consists of the additions to value by a firm from the time materials or goods are purchased by a company until they are sold. For example, a retail store, manufacturing company, or service firm add varying amounts of value during the stages of processing, handling, or performing services. From the standpoint of accounting, taxpayers' returns are readily prepared by deducting purchased items, except labor, and any other items specified as deductible. Deductions would be very large for goods purchased by merchants and for materials bought by manufacturers. Deductions would be relatively small for supplies purchased by personal service proprietors, who would be allowed other deductions later specified. Payrolls constitute the largest single class in the value-added base.

**Michigan value-added tax.**—The Michigan value-added tax is

a broader based tax than most business taxes in the United States because it embraces professions and unincorporated as well as incorporated business. Specifically excluded from the taxable receipts are: proceeds of the sale of capital assets; repayment of debts; cash discounts allowed and taken on sales; proceeds of sales of goods subsequently returned and refunded; and amounts received by an agent who does not have the authority to spend such receipts. Although wages and salaries paid by firms are included in taxable value-added, the employees themselves are not taxable on the compensation they receive.

Since the deductions from gross receipts determine the coverage of the tax and the breadth of its base, deductions are very significant. For this reason the Michigan deductions are presented in detail:

1. All taxes, and any other fees or exactions by government authority other than taxes on or measured by net income
2. All outlays for items to which the tax has already been applied, in order to prevent pyramiding. Includes cost of supplies, raw materials, cost of merchandise sold and the like
3. Interest and rents paid
4. A reasonable allowance for depreciation or amortization of real property.

To avoid the necessity of having to collect the tax from thousands of small businesses and farmers, each taxpayer is granted an exemption of \$10,000 of adjusted receipts. In addition, any taxpayer whose deductible items do not amount to half of his gross receipts can take a flat deduction of 50 per cent. This means that the tax actually begins only on annual gross receipts above \$20,000. The 1955 amendments to the law added that for a business with very heavy labor expenses, 60 per cent of the gross receipts could be taken under certain circumstances as the flat deduction.

A knotty problem in any field of taxation is the allocation of interstate transactions. As established in 1955, the allocation formula rested upon a common three-factor formula, with the three percentages separately computed. They are:

- (1) The proportion of the taxpayer's real and tangible property located within Michigan
- (2) The proportion of wages and salaries paid or accruing to employees and officers within the state
- (3) The proportion of gross receipts derived from services, rentals, and royalties within the state and sales of personal property where deliveries or shipments are made within this state.

The average of these three percentages, separately computed, is used in computing adjusted receipts. This formula is commonly known as the Massachusetts Formula for the allocation of taxable income of interstate transactions.

**Yield of the value-added tax.**—The Michigan value-added tax does not apply to governmental payrolls, interest, dividends, rent, or transfer payments. These exclusions cut down on the base and thus on the yield as well. In addition, the deductibility of all taxes, except those on or measured by income, the 50 per cent flat deduction permitted in lieu of itemization, and the exclusion of the first \$10,000 of gross receipts cut down on the tax yield. At a rate of 6½ mills per dollar on the “adjusted receipts” of taxpayers (except public utilities for which the rate is 1½ mills) the Michigan tax yielded \$59,448,340 in fiscal 1956. On the basis of state personal income of residents included in the tax base, this amounted to 0.4986 per cent, found by dividing the tax yield of \$59,448,340 by personal income of \$11,922,000,000. The equivalent yield in Florida in 1955-56 based on corresponding income of \$3,774,000,000 multiplied by 0.4986 per cent would have amounted to \$18,817,164 from a 6½ mill tax.

Since future revenue from this tax is an important consideration, the tax yield for 1957-58 and for 1958-59 has been estimated on the basis of projections of future personal income. The projections on which these estimates are based assume a continued rate of growth equal to the average from 1948 to 1955. Future yields would be:

| Tax Rate          | Yield in Future Years |              |
|-------------------|-----------------------|--------------|
|                   | 1957-58               | 1958-59      |
| 6.5 mills         | \$22,740,543          | \$24,998,602 |
| Per 1 mill of tax | 3,498,545             | 3,845,938    |
| 1% (10 mills)     | 34,985,450            | 38,459,380   |

In forecasting future yields of the value-added tax, account must be taken of the fact that the Florida tax structure is not necessarily the same as the Michigan structure. Specifically, the question of the deductibility of all tax payments (except income taxes) seems questionable. Why should this distinction be made? The inclusion of taxes in the tax base could not cause any more pyramiding of the value-added tax than the inclusion of wages, since the value-added tax has not been paid on either of them. A legitimate question can also be raised as to the blanket exemption of \$10,000; this with the 50 per cent flat deduction, raises the exempt amount to \$20,000. This might well be cut in half. Such changes might well increase the projections of the yield of the 1 per cent tax above to \$40 to \$44 million.

The above proposal that all taxes be included in the base for the value-added tax is at variance with the feeling that no taxes should be included in a tax base. A brief consideration will reveal that hardly a tax base does not include other taxes. The personal income tax base includes social security taxes and any other federal taxes the individual may have to pay, since none of these are deductible. A retail sales tax includes many taxes in the base (price of goods upon which the tax is levied). One major exception is the deductibility of federal retail excise taxes such as the 10 per cent luxury tax on jewelry, luggage, and other simi-



lar items. If taxes are to be included in the base of the value-added tax, however, some thought should be given to the impact of this provision upon taxpayer acceptance of the tax.

**Administration of the value-added tax.**—Similar to the gross receipts tax, the value-added tax would necessarily be state administered. County or municipal authorities would not be staffed to handle the accounting problems of administration. If this tax replaced the state and county licenses, the tax would be levied at a low rate, with the revenue divided between the state and the counties (schools). This would reimburse the state for collection expense, replace the revenue lost through the withdrawal from the occupational license field, and provide the counties with revenue to replace their loss through withdrawal from licenses and afford new revenue to schools.

**Incidence of the value-added tax.**—The value-added tax is obscure in incidence. Some opinion holds that the value-added tax is another species of sales tax. On this basis, the value-added tax belongs to the family of shiftable taxes paid chiefly by the consumer. The producer will certainly try to add the tax to his price and thus shift it forward to his customers. Failing to do this, he will then try to shift the tax backward to the suppliers of labor, capital, and other factors which he uses. The third possibility, of course, is that the tax will remain on the business to be absorbed or will be offset by increasing efficiency and lowering costs.

Whether most of the businessmen will manage to shift the tax one way or the other, or whether most of them will have to absorb the tax, will depend on the conditions of the market at the time the tax is imposed and upon the rate of the tax. A heavy rate of tax imposed at a time when the market is depressed and unemployment prevalent could not be shifted forward or backward in its entirety. All or a part of such a tax would have to be absorbed by the business. On the other hand, if the tax is imposed at a moderate rate at a time when the market is expanding and employment increasing, many of the businessmen would be able to pass the tax along to the consumers. The manner in which the proceeds of the tax are spent would also have an influence upon the incidence of the tax. If the proceeds were spent so as to increase consumer purchasing power, shifting the tax to consumers would be easier. The incidence of this tax would most likely vary greatly from industry to industry depending on the nature and the relative elasticity of supply and demand and the degree of competition or monopoly existing therein.

The incidence of the value-added tax is not necessarily always on the consumers, since this is not simply a new form of sales tax. Nor can the opposite theory be accepted that the incidence of the tax is never on consumers, but rather always on factors of production in proportion to the income received by them. Basically, however, the value-added tax is a production tax, ad-

justed to the peculiar features of production rather than to consumption. The fact that some part of the tax, or even all of the tax, may be shifted at times is not sufficient to overcome this fact.

### Summary of Findings

**Business and occupational licenses and fees in Florida.**—Florida levies business and occupational licenses, in common with other southern states, on a wide variety of bases and at a bewildering diversity of rates and for a combination of reasons including both revenue and control. The system is archaic, and inherently inequitable, inconsistent, and incongruous. County licenses are usually levied at half the state rate, and both are collected by the county tax collector and the county judge.

Among public utilities, a different base is used for railroads, sleeping car companies, private car companies, express companies, and telephone companies. Electric, water, and gas companies all pay licenses based upon the population of the municipality in which they are located, but the progression is so different for the three types of companies that the only cities in which they can be sure of paying the same license are those of over 50,000. For some licenses, an attempt is made to adjust the size of the license to the size of the business, such as wholesale licenses, restaurant and other eating places, theaters, and hotels. The attempts are crude and usually ineffective. Flat rate licenses on a business or occupation are particularly inequitable because they have no connection with any other aspect of the business. The need is urgent for revision to relieve businessmen of inequitable burdens.

Revision of the present business and professional licensing system might take place within three different frameworks. These are: (1) the present framework of a licensing system maintained and carried on in any one of three different ways, (2) the elimination of the system of licensing with the substitution of a gross receipts tax, and (3) the elimination of the system of licensing with the substitution of a value-added tax. There are possible courses of action from which the choice may be made. Within the present framework are also various alternatives.

Some states have withdrawn from the licensing field, leaving it to local governments. This course is one alternative open to Florida. The state would withdraw from those licenses which are levied for revenue, including occupational licenses, retail store licenses, insurance company and agent licenses, and railroad, telegraph, and other public utility licenses. Beverage and hotel and restaurant licenses, which are essentially for control purposes, would be retained. In 1956, the state would have lost almost \$2.2 million. Withdrawal by the state would hardly bring any significant increase in local revenue from licenses and fees without affirmative action on the part of the state to reorganize the licensing system.

The second possibility within the present framework is to "doctor" the present system, which is the process by which licenses grew into their present multiplicity. This method would add more classification, move some businesses from one classification to another, or establish new rates for some businesses. This course of action cannot remedy the faults of the present system. These are too basic for superficial correction.

The third possibility would be to retain the licensing system but to move to a gross receipts basis. This has been the direction of recent changes in licensing statutes. A uniform gross receipts base and rate structure would have the same faults which the gross receipts tax itself has. Modification in the gross receipts structure, such as the bracket rate and varied rates for different types of business, would provide greater equity. Yet the modifications would also complicate statutes and administration.

Approximately 60 per cent of the license revenue collections, or over \$9.1 million, go to the cities with the other 40 per cent divided between state and counties. Approximately \$2 million go to the counties and twice that much to the state. Occupational licenses, including beverage licenses, brought in nearly \$14 million to the state, counties, and cities in 1955. Revenue has been increasing as business and population have increased. Retail store licenses decreased as a result of the removal of the chain store tax in 1953. Many licenses are only minor revenue producers, but many of them are used basically for control rather than revenue purposes. Many different state agencies collect licenses, or fees without licenses. The total of all state collections in 1956 amounted to \$14.8 million, with \$9.6 million coming from fees other than licenses.

Per capita occupational and beverage license collections by all Florida governments in 1955 were larger in those counties having high per capita personal income than in those with low per capita personal income. The same general relation existed, though to a lesser degree, between per capita personal income and license collections as a percentage of personal income, a test of the tax burden. In some high-ability counties, however, the tax burden was low; and in some low-ability counties, the tax burden was comparatively high for this type of taxation. The large municipalities collected most of the license fees, those in six counties accounting for almost three-fourths of the total.

**Municipal licenses.**—Municipal licenses are levied under both general and special legislation, most of the cities operating under special acts as well as the general statute. Municipal rates are generally higher than state rates, running into the hundreds of dollars in many instances. Professional licenses were somewhat higher for the cities which charged \$25 or more in most professions, while state rates ran in general from \$5 to \$25. The bases upon which city licenses are levied are, in general, the same as those for state licenses.

Municipalities collected \$9,111,935 from licenses in 1955; this



amounted to more than was collected on the same license base by the state and counties combined. In general, cities in Florida do not make an intensive use of licenses as a source of revenue. Among Florida cities with over 5,000 population, only 10 received as much as 10 per cent of their revenue from this source. This could be contrasted with Alabama where business licenses are a leading source of municipal revenue, in some instances providing nearly half of the total. Under the present license structure, however, major increases in rates would work unbearable hardships on many businesses, while the impact of licenses on others would be insignificant. Big cities collected most of the revenue.

The necessity for revising the base upon which the cities levy their licenses is no less acute than that for revising the basis of state licenses. Should the state withdraw from the license field, this would leave the counties and municipalities a free hand in licensing. Yet in the absence of major revision, important additional revenue could not be obtained from this source. The cities would be on their own to exploit this source of revenue as they could. In contrast, the establishment of a gross receipts base for state licensing, or the use of the gross receipts tax or the value-added tax by the state, would place the municipalities in a different situation. They should then have the authority of levying an additional rate to be added to the state tax, which would be collected by the state and returned directly to the municipalities.

**Stock-in-trade (inventory) tax.**—A personal property tax, assessed and collected on a county basis is levied on the inventory or stock-in-trade of all retail merchants. Assessment procedures and millage rates vary from county to county. Unless the tax assessor has a fixed procedure to which he adheres at all times, assessment ratios are likely to vary among businesses, and thus to create inequities. The tax penalizes those businesses which, by the nature of their operations, are required to carry large inventories and which operate at a low rate of turnover.

The inventory tax is an adjunct of the retail store license; and as long as the retail store license remains at a flat \$10, the removal of the tax does not seem justified. A revision to place the retail license tax on a gross receipts base would justify the removal of the inventory tax.

**Agricultural inspection fees.**—The State of Florida makes major use of fees of various kinds for which no license is issued. The most important of these, amounting to \$6,270,418 in 1956, is the family of inspection fees administered by the Department of Agriculture. Fees are collected for citrus inspection, gasoline and oil inspection, federal-state inspection of fruits and vegetables, fertilizer inspection, feed inspection, and egg and poultry inspection, in addition to farmers' market fees. These amounted to 94 per cent of the total collections.

The beneficiaries of these inspection services should pay for

the cost of the service. Disagreement arises over whether the fee should be measured by the cost of the service rendered or the value of the service rendered. Comparison of revenue and expenditure indicates that the fees collected, especially for gasoline and oil inspection, have exceeded the cost by significant amounts over the past decade. The excess has been used to finance other aspects of the Department's work. Much the same can be said of fertilizer inspection fees and feed inspection fees. The question should be raised as to the legitimacy of financing the Bureau of Immigration and certain inspection activities of general value to the entire state out of agricultural inspection fees. A number of the fees are too high when measured on any equitable basis, and other fees are too low to pay for the services rendered and should be raised.

**Miscellaneous classes of fees and licenses.**—The State Beverage Department administers licenses for those engaged in handling alcoholic beverages, all the way from manufacture to retail sales. The size of the licenses is determined by the population of the county in which the installation is located. License rates go as high as \$1,500. County licenses cost the same as state licenses, and the cities are empowered to levy up to 50 per cent of the state and county license. These are essentially for control, but the license rates are high enough so that they bring in much more than is necessary to administer them. If the license is to be used only for control, their level might legitimately be reduced, and the revenue loss replaced by another type of tax. If the license is to be used for increased revenue, consideration should be given to volume handled or other quantity basis, rather than merely increasing the present crude rates.

The retail store license is administered by the Comptroller's office at a flat \$10 rate on all retail outlets. This is for revenue rather than for control. This license was left over after the chain store tax was repealed in 1953. The tax is a heavy burden on small retailers, while it is only of nuisance concern to big stores. A volume basis should be employed for retail store licenses.

The Hotel and Restaurant Commission administers licenses issued to these two types of public service institutions. Both of the licenses are on a capacity basis, although the progression is so slow that the license is not a heavy burden. The license is used primarily for control rather than revenue. Since this license is used primarily for control purposes rather than revenue, no reason requires the state to withdraw from this field. Since the licenses appear to be minimal, they should not be changed. The occupational licenses levied on both hotels and restaurants—the rates being crudely proportional to capacity—should be considered in connection with other occupational licenses.

Insurance licenses are administered under the Treasurer as Insurance Commissioner. These apply to insurance companies at a flat \$200 a year and to individuals working in the insurance field at from \$6 to \$10 a year. These licenses are important for

revenue purposes with control a minor feature. A flat rate license on insurance companies, regardless of their size or the type of business they do, does not conform to any measure of equity. Revision of insurance licenses should consider both the size of the insurance company and the type of business carried on by the company.

The Game and Fresh Water Fish Commission issues hunting and fishing licenses which vary in cost from \$2.00 to \$100, and dealers licenses which cost more. The Commission does not operate on a budget from general revenue but finances its activities out of the fees collected. In 1956, fees collected by the Commission amounted to \$1,538,829. This license is a privilege license, but the value of the privilege can not well be measured. The level of the license fee must be determined by balancing several factors together.

**Should Florida have a business tax?**—Florida's licensing system for businesses and occupations is a crude form of business taxation which is condemned by tax authorities as inequitable and capricious. A few special taxes on specific types of business, such as the public utilities gross receipts taxes, are levied. A business tax is a tax on business rather than a tax on consumption. The incidence of a business tax is uncertain. Such a tax is levied upon the business itself rather than upon the people who run the business. Modern business has productive capacity above and beyond the capacity of the men who individually work in business firms. Consequently, many authorities feel that business should be subject to taxation.

A business tax is justified on many different bases, largely on the proposition that the business receives benefits of various kinds from the state, and that business should be called upon to pay for these benefits. A corporation income tax is the most prevalent kind of business tax, but Florida forbids income taxes. A general business tax, under these circumstances, would of necessity be levied on gross receipts or value-added.

**Gross receipts tax.**—A gross receipts tax is a tax on volume as measured by gross receipts. The tax has two inherent weaknesses which are made more pronounced the higher becomes the rate of taxation. First, the tax has a heavier impact upon those businesses which have a low rate of return on volume; and the lower the rate of return on the larger volume, the heavier is the impact of the tax. A gross receipts tax, especially at a high rate, penalizes high turnover and low rate of markup. A tax of 0.8 per cent on gross receipts would amount to a tax of 80 per cent on net profit for a business realizing only 1 per cent return on gross returns, while the same tax would amount only to 8 per cent for a business realizing a 10 per cent return on gross receipts. Inequities of this nature can be greatly reduced by restricting the gross receipts tax to a low rate.

The second criticism is that a gross receipts tax is pyramided. Inequities are created among consumers and between the inte-



grated business against the small independent operators. A gross receipts tax is levied at every transaction. Goods which go through several transactions between independent businesses will have the tax included in the price, but the taxes will have to be borne by the businesses involved. The independent businesses cannot sell in competition with the integrated business which has only one gross receipts tax to pay and that on its final sale. Such a differential might at times be enough to eliminate small businesses. Customers have several gross receipts taxes to pay in the price they pay for their goods. The gross receipts tax is certain, easily administered, responds to inflationary pressures, and produces large revenues.

The inequities in the gross receipts tax can be alleviated, but this can be done only at the cost of making the tax more complex in administration and compliance. These modifications can take the form of classifying the base and applying different tax rates. One approach to the establishment of the rate structure is through the relationship between net return and gross return for the business involved. The gross receipts tax rate is adjusted in such a way as to levy approximately an equal tax on the net returns of all businesses. The higher is the businesses' net return in relation to its gross receipts, the higher the tax rate would be in order to achieve equity in taxation. Otherwise the tax would penalize those businesses trying to keep prices low through a large volume of business. Such a plan, however, could not relieve the inequity arising between small independent businesses and integrated firms.

The yield of the gross receipts tax is large. Of course, the broader the tax base the larger the yield for a given rate of tax. On a base comparable to the business and occupations tax in Washington, which is a gross receipts tax exempting only agriculture, governmental income payments, and property income, a gross receipts tax in Florida would yield \$10,669,251 per mill of tax on receipts at the 1956 rate. Current and projected tax yields at various rates are as follows:

| <b>Tax rate</b> | <b>1955-56</b> | <b>1957-58</b> | <b>1958-59</b> |
|-----------------|----------------|----------------|----------------|
| 4.7 mills       | \$ 50,145,480  | \$ 60,600,813  | \$ 66,618,270  |
| Per 1 mill      | 10,669,251     | 12,893,790     | 14,174,100     |
| 1% (10 mills)   | 106,692,510    | 128,937,900    | 141,741,000    |

A gross receipts tax would be administered at the state level, since county and municipal officials would hardly be in a position to carry out the work efficiently. This would be true whether or not the gross receipts tax replaced the state, county, and municipal licenses. The state would retain only sufficient revenue to pay the cost of administration, and possibly to replace license revenue foregone. A municipal gross receipts tax would probably take the form of a supplementary rate added to the state rate, collected by the state within the municipality, and returned to the city.

**Value-added tax.**—A value-added tax is not to be mistaken

for either a gross receipts or net income tax. This tax does not cover as much of a base as the gross receipts tax, but it does cover more than the income tax. The base of the tax is intended to be the value added to goods or services in the process of fabricating, handling, or rendering service. All items on which the tax has been paid are deductible in determining value added. Thus, the tax is not pyramided. The weight of the tax upon a business depends upon the amount of value added. Little inequity results between businesses under this tax. Use of the value-added base results in a larger tax on businesses which make use of a great deal of labor or equipment than on firms with a small payroll or little equipment.

Michigan is the only state where the value-added tax is in use, a use that is proving successful. The tax does not apply to governmental payrolls, property income, or transfer payments. These exclusions narrow the base. In addition, \$10,000 of adjusted income is excluded, and a 50 per cent flat deduction is allowable for businesses whose deductions do not amount to 50 per cent of their gross receipts. Deductions of this type also narrow the base of the tax considerably and cut down the tax yield. At a rate of 6½ per cent for everything (except public utilities which are taxed at 1½ per cent), the Michigan yield in 1956 was \$59,448,340. Current and projected yields in Florida at various percentages are as follows:

| Rates             | 1955-56       | 1957-58       | 1958-59       |
|-------------------|---------------|---------------|---------------|
| 6.5 mills         | \$ 18,817,164 | \$ 22,740,543 | \$ 24,998,602 |
| Per 1 mill of tax | 2,894,948     | 3,498,545     | 3,845,938     |
| 1% (10 mills)     | 28,949,480    | 34,985,450    | 38,459,380    |

This projection is based on a continued rate of state growth equal to the average from 1948 to 1955. These yields could be increased for a 1 per cent tax for the two projected years to \$40,000,000 and \$45,000,000 by reducing some of the deductible items and by reducing the blanket deduction of 50 per cent of adjusted income.

The administration of the value-added tax should be at the state level, the same as with a gross receipts tax. As a substitute for state and county licenses, the tax would be at a low rate with the state retaining revenue enough to pay the cost of administration and to replace the revenue foregone in withdrawal from the licensing field. Municipal use of the tax could well take the form of an auxiliary rate to be levied within the limits of specified municipalities, collected by the state, and returned to the municipalities in which collected.

### **Suggestions for Major Changes**

The following suggestions or recommendations are made only with the thought of relieving Florida businessmen of the inequitable burdens which fall upon many of them through the operation of an archaic system of business licenses which has long been outgrown. The fair distribution of future revenue loads must also be considered. Use of any of the suggested plans as

sources of revenue, additional to what the state is now receiving, would depend upon the action of the Legislature in approving appropriations sufficiently large so that additional revenue must be secured. The plan is suggested, moreover, as a possible partial answer to the demands of schools and cities of Florida for more revenue sources to meet the demands being made upon them. With a revision of the licensing system, significant additional revenue could be obtained for the schools and cities of Florida without visiting hardships upon businesses, either individually or by groups.

The following suggestions are made within a three-fold framework. Each of the possible plans is mutually exclusive of the others. That is, to follow any one of them would mean that neither of the other plans could be followed. Since municipal licenses are separate from state and county licenses, however, one of the methods could be followed for the city and another for state and county (schools). The possible plans are placed in reverse order, the least desirable being placed first and the most desirable last.

#### **1. Changes within the present licensing framework.**

a). The states could withdraw from the licensing field leaving licensing to the cities and counties to be exploited as they see fit. This would remove the state from the administration of licenses (except those for control purposes such as beverage and hotel and restaurant licenses). Withdrawal would also deprive the state of between \$2,000,000 and \$3,000,000 in revenue. Without affirmative action on the part of the state, the local governments would not improve their revenue position. Without affirmative state action, the nature of the licensing system would remain unchanged.

b). The Legislature could "doctor" the present licensing system in whatever ways are possible to improve the functioning of specific licenses. As many changes as possible should be made in the direction of licenses based upon volume. These would include retail store licenses, insurance licenses, beverage licenses, and many others. A retail license based upon volume with an adequate graduation would permit the elimination of the inventory tax.

The objectionable feature to this plan is that the system grew to its present deplorable state by the process of "doctoring", and such a process will not remedy the defects in the basic nature of the structure. This can be accomplished only by major surgery. However, as a temporary palliative, of which more will be needed continually, this method is a possible solution to the problem.

c). The entire licensing system could be overhauled, retaining the licensing feature, but converting the base to volume or gross receipts in every instance possible. This revision is the modern trend in license systems. The per capita yield of such licenses



in cities using the gross receipts base runs high. Virginia is a case in point where per capita city receipts run as high as \$12.00 to \$14.00 or more.

**2. In substitution for the licensing system, a low-rate gross receipts tax could be levied on all business except agricultural income, government payments, and property income.** This tax should be administered by the state. The revenue would be divided between the state and the county with the state retaining a minimum amount to pay for administration and to replace lost revenue. The cities might be given the alternative of retaining their present license system, or of adopting an auxiliary rate to the state gross receipts tax rate. The auxiliary tax would be collected by the state within the municipality and returned to the municipality without restrictions on its use.

The gross receipts tax suffers from inequalities which make it less desirable for use in state business taxation than the value-added tax. If the gross receipts tax were adopted, thought should be given to developing a system of differentiated rates to apply to different businesses determined by the ratio of net to gross receipts by specific businesses.

**3. In substitution for the licensing system, a low-rate value-added tax could be levied on all business except government payrolls, transfers, and property income.** This tax would be administered at the state level with the same provisions for local participation or non-participation as was listed under the gross receipts tax.

The establishment of alternative 2 or 3 would open the way for the state to make use of these sources of revenue at a time in the future when state revenue was not large enough to cover expenditure. Florida has no business tax of any stature, and the addition of such a tax to the revenue system would give more balance and stability to the system than it has at the present time.



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